



**METROPOLITAN ST. LOUIS SEWER DISTRICT  
TWO YEARS ENDED JUNE 30, 2001**

**From The Office Of State Auditor  
Claire McCaskill**

**Report No. 2002-88  
September 12, 2002  
[www.auditor.state.mo.us](http://www.auditor.state.mo.us)**

# AUDIT REPORT



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

September 2002

**The following problems were discovered as a result of an audit conducted by our office of the Metropolitan St. Louis Sewer District.**

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Significant weaknesses were noted in the district's billing and collection policies, procedures and records. At June 30, 2001, the district had over 38,000 accounts with a total amount delinquent of approximately \$34 million, including delinquencies dating as far back as 1981. In addition, the district wrote-off over \$2.7 million in delinquent charges deemed not to be collectable during fiscal year 2001. Written policies and procedures outlining specific steps and criteria to be followed for billing and collection activities have not been developed. Adjustments to customer accounts are not always properly authorized, the supporting documentation for adjustments is not sufficient, and controls over adjustment authorization forms need to be improved. In addition, significant adjustments are not reported to the Board of Trustees.

The district had significant problems with the management of its Real Property Acquisition and Relocation Assistance (buyout) Program for the Ashland Abner neighborhood in the City of St. Louis. The district needs to improve its procedures for managing the buyout program because in July 2001 and January 2002, the Board approved approximately \$3.7 million and \$2.8 million, respectively, for two additional buyout programs.

The district did not adequately evaluate and/or monitor the cost of legal services, and the district did not prepare Request for Proposals (RFP) for its legal services. Also, legal service arrangements were not approved by the Board of Trustees, nor were written agreements always prepared. In addition, the law firms did not always provide adequate supporting documentation, and the payments to these firms were not always in accordance with district guidelines. The district's legal expenses increased from \$732,056 in fiscal year 1999 to \$1,903,002 in fiscal year 2000.

The district needs to improve its process of procuring and monitoring most of its professional services (excluding engineering services). In addition, the district could not always provide information to support the benefits it was receiving from each contract. It appears the procurement and management of professional services is not consistent on a districtwide basis partially because the policies and procedures are general and allow various interpretations by each department. The district uses professional services for areas such as real estate appraisal, public relations, training programs, general investment and advisory services, computer programming, financial audits, pension consulting, and rates consulting.

Some disbursements did not appear to be a prudent, reasonable, or a necessary use of district funds, including:

- The district provided over \$15,000 in fiscal year 2001 and over \$10,000 in fiscal year 2000 to organizations for which the supporting documentation did not always indicate the business purpose and/or identify those people attending.
- In January 2002, the district spent over \$12,000 for its Diverse Universe Award Celebration luncheon and for promotional and informational material.

(over)

YELLOW SHEET

- In November and December 1999, the district spent almost \$4,500 for three networking breakfast meetings, one for construction vendors, one for goods/services vendors, and one for professional service vendors.
- An annual Years of Service Awards banquet is held each year for employees who have been with the district for a significant amount of years. The district spent approximately \$19,800, \$26,800, and \$20,000 in January 2000, 2001, 2002 respectively. The majority of these funds were for the employee gifts, such as watches, clocks, jewelry, golf clubs, DVD players, and digital cameras.
- The district spent over \$46,000 and \$24,000 in fiscal years 2001 and 2000, respectively, on its employee incentive program, called Excellence in Action. Employees receive points (each point is worth \$5) for activities involving customer satisfaction, teamwork, and community relations and involvement. The dollar value of the points is transferred to a debit card, and the debit card can be used at the employee's discretion.

The district needs to improve its construction reports to provide more accountability to the public. The district does not compare and report cost estimates (budgeted amounts) to actual award (contract) cost of a project, nor does the district compare the award cost to the completed project cost.

The supporting documentation for the district's business expense reports (particularly for business meals and credit card charges) is not always adequate. Airline tickets are not always attached to expense reports, and a business reason for flight upgrades is not documented. In addition, some lodging appeared excessive.

The district has not established a limit on the amount of unused accrued sick leave paid employees. One employee received over \$119,000 for his unused sick leave. A districtwide policy on record retention and document destruction has not been established. Also, a current list of related employees and employees with secondary employment is not maintained and monitored by the Office of Human Resources.

The district compensated employees \$76,250 for turning in district vehicles the employees were using primarily for personal commuting purposes which does not appear to be a necessary or appropriate use of district funds. In addition, vehicle usage logs are not maintained for many vehicles.

Formal written minutes were not prepared for closed meetings. The minutes, ordinances, and resolutions are not being signed on a timely basis.

The district is not conducting a physical inventory of its fixed assets on a timely basis. In addition, the individual performing the physical inventory is also responsible for recording and accounting for the fixed assets. The district's financial statements, as of June 30, 2001, show an investment in general plant and equipment of over \$48 million.

Some employees are allowed to use district property for personal use. The district's inventory records are not accurate, periodic physical inventories are not conducted on a regular basis, and the inventory control function is not adequately segregated.

Our previous audit, issued in August 1988, made 92 management recommendations to the Metropolitan St. Louis Sewer District. Of those recommendations, 66% have been implemented, 19% have been partially implemented and 13% have not been implemented by the district. The final 2% were informational recommendations and required no action by the district.

METROPOLITAN ST. LOUIS SEWER DISTRICT

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## STATE AUDITOR'S REPORT



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

Honorable Bob Holden, Governor  
and  
Board of Trustees  
Metropolitan St. Louis Sewer District  
2000 Hampton Avenue  
St. Louis, MO 63139

The State Auditor was requested by the Honorable Bob Holden, Governor, under Section 26.060, RSMo 2000, to audit the Metropolitan St. Louis Sewer District. The district had engaged Rubin, Brown, Gornstein (RBG) and Company LLP, Certified Public Accountants (CPA), and KPMG LLP, CPA, to audit the district for the years ended June 30, 2001 and 2000, respectively. To minimize any duplication of effort, we reviewed the report and substantiating working papers of RBG and Company LLP. The scope of our audit of the district included, but was not necessarily limited to, the two years ended June 30, 2001. The objectives of this audit were to:

1. Review certain expenditures of the district.
2. Review certain personnel practices and procedures.
3. Review internal control procedures over certain financial areas.
4. Review compliance with certain constitutional provisions, statutes, attorney general's opinions, and board policies as we deemed necessary or appropriate in the circumstances.
5. Follow-up on recommendations made in our previous report.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the district as deemed appropriate.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the district's management and was not subjected to the procedures applied in the audit of the district.

The accompanying Management Advisory Report presents our findings arising from our audit of the Metropolitan St. Louis Sewer District.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill  
State Auditor

May 16, 2002 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
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MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS



METROPOLITAN ST. LOUIS SEWER DISTRICT  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

The State Auditor was requested by the Honorable Bob Holden, Governor, under Section 26.060, RSMo 2000, to audit the Metropolitan St. Louis Sewer District (district).

The district is organized pursuant to Article VI, Section 30 of the Missouri Constitution and is a political subdivision of the state. The district was created in 1954 to provide a metropolitan-wide integrated sewer system to serve the city of St. Louis and parts of the county of St. Louis. In 1977, the district annexed most of the county of St. Louis, not already part of the system. The district service area now includes a system of sanitary, storm water and combined sewers totaling more than 8,700 miles of pipes and channels covering more than 524 miles, serving approximately 1.4 million customers.

The district is governed by a six-member Board of Trustees with equal representation from the city and the county. A three-member Civil Service commission serves in an advisory position on problems concerning personnel administration. The Charter (Plan) which established the district was amended by voters in 2000. The amended Plan established an independent fifteen-member rate commission to review adjustments to the district's user charges before the Board of Trustees acts on them. Another major change in the Plan gave the district the authority to issue revenue bonds on a districtwide basis.

The following recommendations resulted from our audit of the district.

<b>1.</b>	<b>Billing and Collection Policies, Procedures, and Records</b>
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We noted significant weaknesses in the district's billing and collection policies, procedures and records. Written policies and procedures outlining specific steps and criteria to be followed for billing and collection activities have not been developed. Adjustments to customer accounts are not always properly authorized, the supporting documentation for adjustments is not sufficient, and controls over adjustment authorization forms need to be improved. In addition, significant adjustments are not reported to the Board of Trustees. Delinquent account balances are not written-off on a timely basis. Liens are not placed on customer accounts in a consistent manner. The district's Disadvantaged Business Enterprise (DBE) collection agency may not meet the qualifications of a DBE and the district does not adequately monitor the collection agencies.

The primary source of funding for the district is a wastewater user charge. In fiscal year 2001, the district billed approximately \$127 million in sewer service charges. At June 30, 2001, the district had over 38,000 accounts with a total amount delinquent of approximately \$34 million, including delinquencies dating as far back as 1981. In addition, the district wrote-off over \$2.7 million in delinquent charges deemed not to be collectable during fiscal year 2001.

- A. The district has not developed formal written policies and procedures outlining specific steps and criteria to be followed for its billing and collection activities, such as adjusting customer accounts, refunding, adding and/or deactivating accounts, establishing a lien, writing-off delinquent accounts receivables, and forwarding accounts to collection agencies. In addition, billing and collection employees only receive on-the-job training.

Formal written procedures are necessary to ensure that all accounts are accurately and uniformly processed. In addition, periodic formal training would help ensure consistent treatment of the billing and collection activities by all employees.

The lack of detailed written policies, procedures, and adequate training contributed to the other problems we noted with billings and collections.

- B. Adjustments to customer accounts, including writing-off delinquent account balances, are not always properly authorized and the supporting documentation for adjustments/write-offs is generally not sufficient.

According to district policy, adjustments under \$100 only need to be approved by a supervisor. Adjustments between \$100 and \$1,000 are approved by the manager of billing and/or collection, and adjustments in excess of \$1,000 must be approved by a majority of the members of the Adjustment Review (Credit) Committee. The Director of Administration, Director of Finance, Secretary-Treasurer, and Assistant General Counsel comprise this committee.

Our review of adjustments/write-offs revealed the following significant problems:

1. In July of each year, sewer rates are recalculated by the computerized billing system based upon the previous winter quarter usage, for metered residential customers. Incorrect meter readings supplied by the water entities and other problems require an investigation and adjustment of rates by the billing section.

Our review of ten of the rate adjustments posted in September 2001 indicated that none of the account comments adequately justified the rate change and the rate calculation was not supported. Thus, there is little assurance that rate adjustments were properly calculated and posted to customer accounts. In addition, billing personnel indicated that the documentation of approval (adjustment card) for adjustments between \$100 and \$1,000 is not retained after the adjustment is posted.

2. Adjustments are also posted to accounts for various reasons such as write-offs for delinquent charges that are not collectable, incorrect water readings, settlements on past due amounts, and sheriff sales. Our review of thirty-four of these adjustments revealed the following problems:

- ▶ The Executive Director, who is not a member of the credit committee, authorized the collection manager to write-off over \$4,000 of delinquent interest and penalty charges on an account in March 2000. The outstanding balance for this account was approximately \$7,700. A payment of approximately \$3,700 was made with the remainder being written off without adequate supporting documentation for the settlement of the delinquent balance. This write-off was never approved by the credit committee as required by district procedures.
- ▶ In April 2000, a settlement to write-off delinquent charges, totaling over \$1,400 was only approved by two members of the credit committee. The only supporting documentation for the settlement was a written notation to contact the collection manager for questions.
- ▶ In December 2001, a settlement to write-off over \$5,400 in delinquent charges was approved by the credit committee. The explanation for the write-off indicated erroneous billing; however, there was no supporting documentation to identify the erroneous billing.
- ▶ In April 2001, an adjustment which resulted in a refund of \$1,579 was not supported by the charges and payments to the account.
- ▶ Three adjustments which resulted in refunds, totaling over \$10,000, were not approved by the credit committee.

Since adjustments reduce the total amount due to the district, proper approval/authorization and adequate documentation which fully explains the reason for the adjustments are necessary to ensure only the proper accounts and amounts are adjusted and to reduce the risk of misstatement or misappropriation.

3. The authorization forms for adjustments are not being retained and/or accounted for properly. In addition, documentation of review/approval of adjustments needs to be improved.

The authorization forms for adjustments in excess of \$1,000 are prenumbered. However, the forms are not accounted for and the form number is not recorded in the customer account. The adjustment cards indicating approval of adjustments between \$100 and \$1,000, are not prenumbered and accounted for properly. In addition, the card is not retained after the adjustment is posted to the customer account. Although a daily report of all adjustments was prepared, documentation of review/approval for adjustments less than \$1,000 was not maintained.

To ensure that all adjustments are properly posted to customer accounts, adjustment forms/cards should be prenumbered, the numbers accounted for, and forms/cards retained. In addition, the adjustment number should be posted to the customer account to provide an audit trail. Also, the daily adjustment report should be approved by the Director or Assistant Director of Finance.

4. The district has not established any computer access limits for adjustments made by billing/collection personnel. Currently, employees can post adjustments (authorized or not) up to an unlimited amount. Given the inadequate controls over adjustments, unauthorized adjustments could go undetected.

Establishing computer access limits, such as limiting specific employees to a dollar range, would help ensure better control over adjustments.

5. The accounts and amounts adjusted and/or written-off which are approved by the credit committee are not reported to the Board of Trustees.

To help the management and oversight of the district, the Board of Trustees should be informed periodically about significant adjustments and write-offs to customer accounts.

6. The district's user fee ordinance provides that the district may shut-off water and/or close the sewer connection when charges have not been paid and are delinquent for one year. As of September 2001, the time period was reduced to allow for water to be shut off on an account that is delinquent more than three months. The district contacts customers prior to water shut-off to establish a repayment schedule. Water shut-off is used as a last attempt to collect the account. The district must coordinate the water shut-off with either the city or county water entities.

During the review of thirty write-offs of delinquent account balances we noted thirteen accounts for which the water was not shut-off after being delinquent for a period of time ranging from over 1 year to over 12 years.

Allowing customers to receive service for long periods of time without paying reduces the incentive to make payments. The district should ensure that water is shut-off on a timely basis.

7. The district is not always writing-off delinquent account balances in a timely manner. The district cannot always collect a delinquent balance due to legal actions such as the property being sold at a sheriff's sale or foreclosure on the property. We noted five instances where it was in excess of one year before the district wrote-off a delinquent balance due to a sheriff's sale and/or foreclosure.

To help ensure that the district's collection efforts are spent on collectable accounts and to help ensure the accounts receivable records are accurate, delinquent charges should be written-off in a timely manner.

C. Liens are not placed on customer accounts in a consistent manner.

At June 30, 2001, over 4,000 of the delinquent accounts placed with collection agencies, totaling more than \$6 million, did not have liens. In addition, the district was trying to collect on approximately 20,000 delinquent accounts, totaling over \$6 million, which did not have liens.

The district's user fee ordinance provides that when a charge is delinquent after 90 days, the amount due can be collected by a lien or by lawsuit. The district's policy for delinquent accounts provides that liens should be placed on commercial and multi-family properties when a delinquent charge is greater than \$500 and is 360 days delinquent. For single dwellings, liens are to be filed at the discretion of the Director or Assistant Director of Finance, and lawsuits should be filed when practical to help the collection activity.

According to collection personnel, generally liens are placed on accounts when the delinquent amount is greater than \$100 and 90 days delinquent. Accounts are to be placed with a collection agency if delinquent for one year.

During our review of adjustments and twenty-one delinquent accounts, we noted that inconsistencies between the district's ordinance, policy, and general practices contributed to the following problems:

- ▶ Liens were not filed on eight accounts for which the delinquent balance was written-off due to a sheriff sale, foreclosure, or settlement. Two of these delinquent accounts, totaling approximately \$130,000 and \$108,000, respectively, consisted of apartment complexes with multiple units. The total amount written-off for the eight accounts was over \$267,000.
- ▶ A lien was not filed for two accounts, both with a delinquent balance over \$1,700. These accounts have been delinquent since 1998, and have been placed with a collection agency.
- ▶ It was over one year before a lien was filed for three accounts, with delinquent balances of \$608; \$1,422; and \$1,827. Two of these accounts have been placed with a collection agency.
- ▶ Five other accounts were placed with a collection agency without a lien, and four of the accounts, with delinquent balances of \$2,137; \$808; \$155; and \$111 were delinquent for over 90 days.

Liens help ensure that the district's interest in collecting delinquent charges is properly secured. The district should ensure that the policies and procedures for filing liens are clearly defined and followed by district personnel.

- D. The collection agency selected as a DBE firm as required by the Request for Proposals (RFP), does not appear to meet the qualifications of a DBE. In addition, the district is not adequately monitoring the collection agencies' activities.

1. Penn Credit of Missouri was selected as a DBE for collection services in June 1995; however, the firm does not appear to meet the qualifications of a DBE. Penn Credit of Missouri is one of three collection services used by the district.

DBE firms must be either a Minority Business Enterprise (MBE) or a Women's Business Enterprise (WBE) firm in which at least 51 percent of the firm is owned and controlled by a minority group member and/or a woman.

Penn Credit of Missouri does not perform any collection activities for the district. Rather, Penn Credit of Missouri acts as an outside sales person, limited to acquiring clients in St. Louis, for Penn Credit Corporation (Harrisburg, Pennsylvania) which is not a DBE. Penn Credit of Missouri does not appear to have any ownership and/or control of Penn Credit Corporation and Penn Credit Corporation actually performs the collection activities for the district.

The district should determine the status of Penn Credit of Missouri and terminate the agreement with the firm, if necessary.

2. The district is not adequately monitoring its collection agencies. Generally, the only reports provided by the collection agencies are the weekly invoices for services, which include basic information such as the account number, name, amount collected, date collected, amount due the district and agency. According to the collection manager, other information such as court judgments, garnishments, and settlements, are available to the district upon request.

To help ensure that the collection agencies' efforts are sufficient and effective, the district should routinely receive status reports of activities such as legal activities, settlements, customer payment histories, and length of time an account has been with the agency.

**WE RECOMMEND** the Board of Trustees:

- A. Develop written policies and procedures outlining specific steps and criteria to be followed for billing and collection activities.
- B.1&
  - 2. Ensure that all adjustments are properly authorized. In addition, adequate documentation which fully explains the reason for the adjustment should be retained.
  - 3. Ensure that adjustment authorization forms are prenumbered, accounted for properly, and retained. In addition, the authorization number should be posted to the customer account for an audit trail. Also, the Director or Assistant Director of Finance should review/approve the daily adjustment report.
  - 4. Establish computer access limits for district personnel who post adjustments to customer accounts.
  - 5. Ensure that significant adjustments and write-offs of delinquent charges are periodically reported to the Board.
  - 6. Coordinate with the appropriate water entity to ensure that water is shut-off and/or the sewer connection is closed in accordance with district ordinance.
  - 7. Ensure delinquent charges are written-off in a timely manner.
- C. Ensure that policies and procedures for filing liens are clearly defined and followed by district personnel.
- D.1. Determine the status of the DBE collection agency, and terminate the agreement with the firm, if necessary.
  - 2. Require the collection agencies to provide periodic status reports. In addition, these reports should be monitored to ensure the agencies' efforts are sufficient and effective.

**AUDITEE'S RESPONSE**

- A. *The District agrees with the State Auditor's recommendation.*

*The development of specific written policies and procedures began June 25, 2002 upon completion of the internal audit of Billing and Collections areas performed by KPMG, L.L.P.*

*Targeted Completion: January 2003*

*B.1&*

- 2. The District agrees with the State Auditor's recommendation.*

*All adjustments regardless of dollar amount are now being reviewed daily by the Billing Manager, Collection Manager, Assistant Director of Finance and Director of Finance. These adjustments are reported to the Adjustment Review Committee and entered into its official record each month.*

*Completed: July 15, 2002*

*The development of a process to more thoroughly document adjustments is currently underway. Electronic adjustment authorization forms and database tracking have been implemented. Performance metrics to reduce the number of adjustments are in development and will be incorporated into the adjustment process.*

*Targeted Completion: January 2003*

- B.3. The District agrees with the State Auditor's recommendation.*

*All daily adjustments now undergo a four-layer approval review (see response to Recommendation B1& 2 above).*

*Completed: July 15, 2002*

*Adjustment authorization forms have been computerized, assigned tracking numbers and stored via a newly designed database. Assigned numbers are now entered as a comment line in the customer account screen.*

*Completed: August 13, 2002*

*It is anticipated this process will become even more automated with the implementation of a new billing and collection system. The exact system and date of implementation is currently under review.*

*Targeted Completion: To be determined*

- B.4. The District agrees with the State Auditor's recommendation.*

*The District agrees with the need to establish more refined access limits for posting adjustment to customer accounts, however, the District's current, 20+ year old legacy billing and collection system is unable to provide this flexibility. The District anticipates replacing the current technology through either an outsourcing solution or the implementation of a new billing and collection system. The exact system solution is contingent on the outcome of the Outsourcing Study targeted for completion by January 17, 2003.*



*Targeted Completion: To be determined*

*B.5. The District agrees with the State Auditor's recommendation.*

*A monthly report for review by the Board's Finance Committee is currently under development. The report will draw on information presented and discussed at each monthly meeting of the Adjustment Review Committee. The chair of the Finance Committee will forward this information to the full Board as part of his/her Committee report. Monthly reporting to the Finance Committee is targeted to begin October 2002.*

*Targeted Completion: October 2002*

*B.6. The District agrees with the State Auditor's recommendation.*

*Management agrees the collection leverage provided by discontinuing water and/or sewer service is essential to improving the District's collection rate, however water shut-off involves the voluntary cooperation of the County and City water providers. In the past this cooperation has encountered political resistance making the implementation of a consistent shut-off program very difficult. Efforts are now underway with both the County and City water providers to address the issue of cooperative water shut-off in the hopes of eliminating prior political hurdles. In addition, a District driven process to block sewers in response to chronically delinquent ratepayers is also being explored. Such a process, however, will need to strike a delicate balance between effective collection efforts and the protection of communities' health and safety since sewer disconnection without simultaneous water shut-off risks generating unsanitary sewer backups.*

*Targeted Completion: June 2003*

*B.7. The District partially agrees with the State Auditor's recommendation.*

*For financial statement purposes all delinquent charges are "written-off" after 360 days, which has found to be a timely basis by both the District's external auditors Ruben, Brown and Gornstein & Co. L.L.P. and KPMG L.L.P. These delinquent accounts, however, remain in the District's collection portfolio, which reflects accounts dating back to the inception of the District in 1954. Management agrees, however, that the timely maintenance of this collection portfolio and its associated database warrants a more timely process.*

*To this end and as a result of the June 24, 2002 KPMG audit of the District's billing and collections operations, management is currently redesigning its entire collection process. For example, the District's current approach does not begin collection efforts until an account is \$100 delinquent and 90 days past due. Given an average MSD customer's monthly bill is approximately \$14.00, an account must be over 7 months delinquent before collection efforts begin. A study of collection industry statistics indicates a strong correlation between length of delinquency and collection probability (i.e. the longer the*

*delinquency, the less likely the account will be collected). As a result the District is in the process of redesigning its collection operations to tie activity triggers to length of days delinquent rather than dollars. Collection activity will begin once an account is 30 days delinquent regardless of dollar amount thereby increasing the probability of collection on accounts that would have previously gone unattended.*

*More extensive collection aging reports are also being developed in order to track collection efforts. The new days-based collection process will trigger assignment of delinquent accounts to collection agencies at 120 days, thereby making in-house staff available to more effectively concentrate on the high probability delinquent accounts.*

*Collection industry statistics also indicate that 90% of the value of a delinquent account is lost at a two year maturity. Based on these statistics, the Finance Department is embarking upon a comprehensive review of its entire outstanding collections portfolio dating back to the District inception in 1954 to identify realistically salvageable accounts with the intent to purge all accounts determined to have lost 90% or more of its value and collection probability. This effort should result in more accurate reporting of the District's collection status and more effective collection efforts.*

*It should be noted the actual implementation of such an extensive process redesign will take time as it involves the retraining of the entire billing and collection staff; coordination of water shut-offs with County and City water providers and sewer disconnections with the District's Operation Department; the development of accompanying performance metrics and tracking reports, and technology enhancements.*

*Targeted Completion: June 2003*

*C. The District agrees with the State Auditor's recommendation.*

*In conjunction with the collection process redesign discussed in management's response to Recommendation B above, the policies and procedures associated with the filing of liens will also be examined and clarified. Training of the collection staff on the resulting procedures will be conducted prior to full implementation.*

*Targeted Completion: March 2003*

*D.1. The District agrees with the State Auditor's recommendation.*

*The agreement with said DBE collection agency was officially terminated via written notice. Investigation of the company's operations determined that the company did not meet the "commercially useful function" standard of a disadvantaged business enterprise. These findings were reported to local and state agencies, which the District utilizes for certification verification.*

*Completed: June 13, 2002*

D.2. *The District agrees with the State Auditor's recommendation.*

*The following reports are currently in development to monitor collection performance:*

- *Dollars Collected – Monitors the dollars collected on delinquent accounts and dollars collected from current accounts. Report will also reflect 1) collection levels as a percent of total delinquents, 2) as a percent of total billings and 3) provide a collection rate for ongoing tracking.*
- *Account Assignment Aging – Monitors the length of time an account is worked by each collection agency and status of collection efforts.*
- *Outstanding Pending Legal Action – Monitors the outstanding legal action pending on all delinquent accounts. Provides a breakdown of suits handled by in-house legal staff and collection agency attorneys.*

*Targeted Completion: January 1, 2003*

*In addition to these reports, the District issued an RFP on August 16, 2002 to conduct a comprehensive outsourcing feasibility study of its billing and collection areas.*

*Targeted Completion: January 17, 2003*

*Additional process and procedure changes will be considered upon completion of the Outsourcing Study. Should it be determined that a RFP for Collection Services be issued, said RFP will include specific performance reporting requirements for each collection agency engaged.*

<b>2. Real Property Acquisition and Relocation Assistance Program</b>
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The district had significant problems with the management of its Real Property Acquisition and Relocation Assistance (buyout) Program for the Ashland Abner neighborhood in the City of St. Louis.

The Board approved over \$1.3 million for the purchase of real property and relocation assistance for residents in the Ashland Abner neighborhood in the spring of 2000. According to district personnel, this was the first time that the district was involved in a large scale purchase of real property and in providing monetary assistance to help residents find new housing.

The district needs to improve its procedures for managing the buyout program because in July 2001 and January 2002, the Board approved approximately \$3.7 million and \$2.8 million, respectively, for two additional buyout programs. As part of our audit, we noted the district was revising its policies and procedures for future buy-out programs.

However, these programs had not progressed sufficiently to allow us to fully review the implementation of the new policies and procedures.

As the district implements the new policies and procedures, it should consider the following factors which effected the management of the Ashland Abner neighborhood buyout program:

- A. A RFP was not used by the district to procure the firm which was used for negotiation and relocation services. The district paid this firm over \$95,000 for these services. In late 2000, the district issued a RFP for real property acquisition services for subsequent projects and received over five responses which demonstrates that several firms can provide this type of service.

Soliciting proposals for professional services helps provide a range of possible choices and allows the district to make a better-informed decision to ensure necessary services are obtained from the best qualified vendor at the lowest and best cost. In addition, the district's policies and procedures provide that RFP's be issued and that every attempt be made to secure at least three responses.

- B. The contract for the negotiation and relocation services was not approved by the Board and was not signed by the Executive Director. The contract was signed by the Director of Public Affairs. The district's policies and procedures related to the procurement of professional services provides that these services be approved by the Board and the contract be signed by the Executive Director.
- C. The district paid the invoices for the negotiation and relocation services without requiring adequate supporting documentation. The contract provided that one-third of \$95,000 be paid after initial personal contacts with all owners, after making offers for fair market value and relocation or rental subsidy, and after acquisition by deed or preparation for condemnation.

One invoice did not include any detail information to support the payment. The supporting documentation for the other two invoices did not include sufficient detail to support the payment.

Sufficient supporting documentation is needed to ensure the completeness and propriety of the expenditure.

- D. It appears that neither the district nor the firm handling the negotiation and relocation services maintained a detailed and complete status report of the activity for each piece of property. Such a report might include date of appraisal, date of offer and acceptance for purchase of property, offer amount, date of closing, date of asbestos inspection, and date of demolition of property. Such a status report would help the district ensure that all required activity is performed on a timely basis.

Since the district is planning several more buyout programs, it is imperative that it improve its procedures when managing these future buyout programs. In May 2001, the district's Internal Auditor issued a report regarding the buyout program which also made suggestions for improving the operations and controls over this program.

**WE RECOMMEND** the Board of Trustees:

- A. Ensure that proposals are solicited for professional services related to future buyout programs.
- B. Ensure all contracts for professional services related to future buyout programs are approved by the Board and signed by the Executive Director.
- C. Require adequate supporting documentation to be obtained for all disbursements and that the documentation is reviewed for completeness and propriety.
- D. Require that a complete and detailed status report is maintained for each piece of property in future buyouts.

**AUDITEE'S RESPONSE**

- A. *The District agrees with the State Auditor's recommendation.*

*During the later stages of the Ashland-Abner acquisition/relocation project, the various activities related to that project were evaluated. Based on that evaluation, a Request for Proposal (RFP) for professional services for acquisition/relocation activities was developed and finalized in early summer of 2000. This RFP has been used for solicitation of proposals for all acquisitions and relocations conducted since the Ashland-Abner project. Additionally, in the summer of 2000, the Director of Administration was put in charge of all acquisition/relocation programs.*

*Acquisition/relocation projects undertaken by the District since late 2000 have been managed by consultants selected through an RFP process requiring firms with expertise, experience, and personnel conversant in all aspects of real property acquisition/relocation with specific knowledge of federal requirements for these types of activities.*

*Completed: January 2001*

- B. *The District agrees with the State Auditor's recommendation. Authorization to enter into a contract for real property acquisition/relocation services subsequent to the Ashland-Abner project have been approved by the Board of Trustees and those contracts have been signed by the Executive Director.*

*Completed: January 2001*

- C. *The District agrees with the State Auditor's recommendation.*

*Acquisition/relocation consultants engaged by the District for acquisition/relocation services are maintaining a comprehensive file on each parcel, which is in the process of being acquired or has been acquired. These files are in compliance with federally funded acquisition/relocation recordkeeping provisions. Additionally, the District is maintaining a general working file for each parcel. All disbursements for activities of acquisition, relocation, moving expenses, etc., are processed through the District's accounting division based on a multi-leveled approval process and all invoices submitted for acquisition/relocation consultant services are reviewed and approved by the Director of Administration and the Director of Engineering before any payments are made.*

*Completed: January 2001*

- D. *The District agrees with the State Auditor's recommendation.*

*Each property slated for acquisition by the District has, as a requirement, a comprehensive and detailed status on every aspect of the acquisition/relocation process in compliance with recordkeeping provisions as set forth in the federal Uniform Relocation and Real Property Assistance Act (49 C.F.R. Part 24, as amended). Even though no federal funds have been used for the District's acquisition/relocation projects to date, federal provisions have been utilized for all phases of acquisition and recordkeeping in order to make the District potentially eligible if federal reimbursement would become available.*

*Completed: January 2001*

<b>3. Legal Services</b>
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The district did not adequately evaluate and/or monitor the cost of legal services, and the district did not prepare Request for Proposals (RFP) for its legal services. Also, legal service arrangements were not approved by the Board of Trustees, nor were written agreements always prepared. In addition, the law firms did not always provide adequate supporting documentation, and the payments to these firms were not always in accordance with district guidelines.

Generally, the district obtains legal services to supplement its legal staff when the work load for the district's staff is high and/or when specific areas of expertise are needed in areas such as general litigation, workers' compensation, pension issues, charter issues, and bonding issues.

Our concerns regarding legal services include the following:

- A. It appears the district did not prepare a cost comparison of the estimated costs of in-house counsel versus outsourcing. In addition, the cost of legal services was

not evaluated on a periodic basis. The following table shows the legal cost over the five year period from fiscal year 1997 through 2001.

Type of service	Fiscal Year 1997	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001
District legal staff	\$530,089	556,892	645,328	653,065	409,227
DKW				977,445	857,555
Other firms	\$129,613	72,698	86,728	272,492	79,425
Totals	\$659,702	629,590	732,056	1,903,002	1,346,207

The increase in legal services in fiscal years 2000 and 2001 appears primarily due to the Executive Director hiring an individual and his law firm, Doepken, Keevican and Weiss (DKW) to act as the district's Special Counsel. The duties of the special counsel included advising, consulting, and representing the district on an as needed basis, as determined by the Executive Director.

As noted in the table above the district paid DKW over \$1.8 million for services between November 1999 to February 2001. In addition to serving as special counsel, DKW served as the district's general counsel from March 2000 to August 2000, when the district's general counsel position was vacant. The district did not have adequate documentation to justify the need to employ a special counsel and to incur the additional cost associated with this arrangement.

When outsourcing services the district should ensure its needs justify the cost of the proposed services, and periodically review this cost to ensure the outsourcing continues to be cost effective.

- B. For fiscal years 2001, 2000 and prior years, the district did not prepare RFPs when procuring legal services, nor did the district request approval of the legal service arrangements from the Board of Trustees. In addition, written agreements were generally not prepared.

Soliciting proposals and subjecting legal services to a competitive selection process helps the district select the vendor or individual best suited to provide the service required. Such a practice will provide a range of possible choices and allow the district to make a better-informed decision to ensure legal services are obtained from the best qualified vendor at the lowest and best costs. Written agreements provide the framework necessary to detail the services to be provided and the compensation to be paid. Furthermore, Section 432.070, RSMo 2000, requires all contracts to be in writing. In addition, legal service arrangements should be approved by the Board of Trustees.

Currently, RFPs have been prepared for some legal services. These services were approved by the Board of Trustees and the agreements were in writing.

C. The following problems were noted with the invoices and supporting documentation for legal services received during fiscal years 2000 and 2001:

- ▶ The hourly rate for each attorney was not always listed on the invoices.
- ▶ The invoices did not always include the time spent on each task.
- ▶ The invoices did not always include a summary of the total hours by each attorney.
- ▶ In several instances a summary of various tasks was listed with an amount due; however, the time period, or hours spent were not identified by attorney.
- ▶ No supporting documentation was submitted for expenses such as airfare, travel expenses, and other costs.
- ▶ No supporting documentation was submitted for work performed by other professionals hired by the law firm. In addition, some checks payable to DKW were endorsed to other professional entities; however, the amounts of the endorsed checks did not always agree to the amounts included in the DKW invoices for these other professional services. There was also no documentation to indicate that the district approved the use of the other professionals.

The district needs to ensure that adequate supporting documentation is submitted for legal services. Invoices should include a detailed list of tasks along with the name of the attorney and time spent on each task, and a summary should include the total hours by each attorney and the attorney's hourly rate. Receipts should be submitted for expense reimbursements. In addition, the district should approve the use of other professional services used by attorneys and require supporting documentation for these services.

D. Many manual checks were written to law firms. It appears the law firms requested manual checks to facilitate their cash flow needs when the law firms failed to bill on a timely basis and provided the district with several months invoices at one time. One firm received ten manual checks totaling over \$274,000, during the two years ended June 30, 2001. Payments by the district are usually made by computer generated checks.

The district's policy discourages the writing of manual checks and there was no documentation justifying the need for these manual checks.



It appears that preferential treatment of law firms was taking place and that standard uniform procedures were circumvented to benefit the firms rather than the district as a whole. Compliance with standard payment procedures is necessary to provide assurance that payments are for bona fide liabilities of the district and to keep processing time for payments to a minimum.

**WE RECOMMEND** the Board of Trustees:

- A. Ensure the district needs justify the cost of outsourcing legal services and periodically review this cost to ensure the outsourcing continues to be cost effective.
- B. Ensure RFP's are prepared for legal services. The agreement should be in writing and approved by the Board of Trustees.
- C. Obtain adequate supporting documentation for legal service invoices.
- D. Ensure that the district's check policy is strictly followed.

**AUDITEE'S RESPONSE**

- A. *The District agrees with the State Auditor's recommendation.*

*As a general rule, the Office of General Counsel obtains the services of outside legal services only when needed based upon manpower limitations or the need for legal expertise in a specific area of the law. As a standard practice, all bills presented to the Office of General Counsel by outside legal services are continuously reviewed for accuracy in a routine and timely manner. A procedure will be developed so that the Office of General Counsel's files contain documentation indicating the specific need for the legal service provided by outside counsel.*

*During fiscal years 2000 and 2001, the law firm of Doepken, Keevican and Weiss, P.C. ("DKW") was hired by the District to act as the District's special counsel. It is important to note that during a substantial period of that time, the Office of General Counsel operated at a significantly lower staffing level. Legal staffing for the Office of General Counsel was down by three and then subsequently, two attorneys; resulting with a daily operating District staff of two out of five attorneys. Currently, the Office of General Counsel is fully staffed.*

*Targeted Completion: October 1, 2002*

- B. *The District agrees with the State Auditor's recommendation.*

*As of October 18, 2001, legal services are obtained through the Request for Proposal ("RFP") process, ordinances are prepared and presented to the Board of Trustees for their approval. Upon the Board's approval, contracts are properly executed.*

*Completed: October 18, 2001*

- C. *The District agrees with the State Auditor's recommendation.*

*The development of a process to more thoroughly gather and review supporting documentation for legal services is currently underway. To best safeguard the District's interests, written policies are being drafted requiring the routine submittal of, including, but not limited to, airfare, travel expenses, and other costs.*

*Section 3(c) of the State Auditor's report suggests concerns regarding the presentation of legal bills, more specifically, with a focus being on information contained in the invoices involving billing rates, time spent on tasks, and the use of a summary of various tasks with an amount due rather than an individual listing of tasks completed.*

*It is important to note that the hourly rate for each attorney was a pertinent part of the law firm's contract with the District. While in the case of DKW, the time spent by an attorney on an individual project was in some cases not indicated with specificity, the billings did in fact note the attorney and the relevant subject matter and tasks completed by the attorney. Moreover, bills contained a "Timekeeper Summary" which listed the attorney's total number of work hours represented in the bill and their hourly rate. With this information, the reviewer readily knows an attorney's hourly rate and what portion his work represents of the total bill presented.*

*Targeted Completion: October 1, 2002*

- D. *The District agrees with the State Auditor's recommendation.*

*The District recognizes the value of keeping the number of manual checks to an absolute minimum number, and will take immediate action to implement this recommendation. It should be noted that during the audit time frame only 31 manual checks were issued out of approximately 51,000 total checks issued.*

*Targeted Completion: Current & Ongoing*

<b>4. Professional Services</b>
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The district needs to improve its process of procuring and monitoring most of its professional services (excluding engineering services). In addition, the district could not always provide information to support the benefits it was receiving from each contract. It

appears the procurement and management of professional services is not consistent on a districtwide basis partially because the policies and procedures are general and allow various interpretations by each department. The district uses professional services for areas such as real estate appraisal, public relations, training programs, general investment and advisory services, computer programming, financial audits, pension consulting, and rates consulting.

- A. The district did not seek the Board's approval for an amendment, totaling \$437,581, to a consulting contract, even though this amendment was almost double the original contract price, and the original contract was approved by the Board.

In February 2000, the Board approved a consulting contract, totaling \$245,000, for professional services to implement a program for organizational change throughout the district. It appears the district decided to expand the scope of the services. But, instead of requesting Board approval for the increase in the consultant's services, the Director of Finance approved the amended contract with a purchase order.

Substantial changes to a contract that drastically increases the contract price should be approved by the Board.

- B. It is unclear that the district's television advertisements, "The More You Know", are a reasonable or necessary use of district funds. The district spent \$120,000 and \$48,000 in fiscal years 2001 and 2000, respectively. According to district personnel, these advertisements will also be shown through fiscal year 2002.

These advertisements do not inform, educate, or convey any relevant information about the district and/or its operations. We could not determine and the district could not provide any documentation of how these advertisements benefited the district.

- C.1. The district procured some services without issuing Request for Proposals (RFP) and evaluating the proposals. We noted agreements, totaling over \$400,000, where the consultant was chosen because the district was satisfied with the consultant's previous work for the district. The district's policy provides that proposals are needed for professional services and that every attempt should be made to obtain at least three responses.
- 2. The district has not reissued RFPs for its collection services in a timely manner, and the district could not provide any documentation of written consent to extend these contracts for over five years. The RFPs for two of the collection service contracts were last issued in 1993. The RFP for the third contractor was issued in 1995. The district's policy provides that professional service contracts should not be extended beyond five years.

3. Written evaluations of the proposals are not always prepared and/or retained. In addition, written contracts are not always prepared.

The district did not retain the written evaluation of the proposals received for state legislative services provided during fiscal year 2001 and 2000. In addition, the agreement was oral. The ordinance, approved in November 2001, for this service provides for a fee of \$48,000 a year.

In fiscal year 2001, the district orally evaluated firms responses to RFPs to develop and implement a training program for employees, for a fee of \$60,000.

The district did not retain its evaluation of the proposals for the actuarial and consulting services for its pension plan. The contract, dated January 1999, provides for a fee of \$18,600 for actuarial services and per hour rates for other services.

The evaluation of proposals received in response to RFPs should be in writing and retained to support the vendor chosen. In addition, the district's policy provides that a written contract is required for professional services.

The district should solicit proposals for professional services to the extent practical. Soliciting proposals and subjecting such services to a competitive selection process does not preclude the district from selecting the vendor or individual best suited to provide the services required. Such practices help provide a range of possible choices and allow the district to make a better-informed decision to ensure necessary services are obtained from the best qualified vendor at the lowest and best cost.

- D. The supporting documentation for invoices is not always adequate and the supporting documentation and invoices are not always sufficiently reviewed before payment of the invoice.

Most district contracts provide for the reimbursement of reasonable expenses such as mileage, copying, postage, telephone, etc. However, the district usually does not request and/or receive supporting documentation for these expenses. In addition, we noted instances where the hourly rates did not agree with the district fee schedule, or where the invoice was not mathematically correct.

The district should ensure that adequate supporting documentation is provided for any professional services paid, and that charges agree to contract fee schedules. Lack of adequate documentation prevents the district from evaluating the appropriateness of the professional services being billed.

- E. The district is not consistently coding similar expenditures to the same object code in its accounting system, and it appears that some expenditures should be charged to a more appropriate object code.

For example, the payments to the consultant involved in the program for organizational change throughout the district were charged to professional services, construction and engineering, and training programs/seminar fees. The payments to the consultant used in property acquisition and relocation services, were charged to construction and engineering.

The district should ensure that disbursements are charged to the correct and/or most appropriate object code in its accounting system. This is necessary for evaluating costs and for budget purposes.

Conditions C. was also noted in our prior report.

**WE RECOMMEND** the Board of Trustees:

- A. Ensure contract amendments are approved by the Board for contracts which were originally approved by the Board.
- B. Ensure that advertisements are necessary, reasonable, and benefit the district.
- C. Solicit proposals for professional services on a timely basis to the extent practical. The proposals should be formally evaluated and retained. In addition, written contracts should be prepared to formalize these agreements.
- D. Ensure that supporting documentation is received for all charges and reviewed for propriety before payment.
- E. Ensure expenditures are charged to appropriate object codes.

**AUDITEE'S RESPONSE**

- A. *The District agrees with the State Auditor's recommendation.*

*The Taking Action to Stay Competitive initiative was originally envisioned as a project involving approximately 100 employees on 8 teams. The original \$245,000 professional service contract reflected this scope. Employee interest in the project was significant with over 300 of our staff wanting to participate. Management decided that with more staff involved additional areas of the district could be reviewed and in greater detail. The project scope was expanded to 300 employees on 24 teams. Since the project costs are directly related to the number of facilitators needed to guide teams, tripling the effort greatly increased the cost. Since the expected payback on the additional investment was less than one year, the Operations Department funded the additional cost out of it's 1999-2000 budget.*

*Funding scope changes for additional professional service contracts from the operating budget, can no longer occur. Board Ordinances now include maximum monetary values*

*associated with the various projects. In order to increase the value of a contract approved by the Board, additional Board action is required.*

*Completed: September 13, 2001*

- B. The District agrees with the State Auditor's recommendation.*

*The sponsorship of the "More You Know" was utilized to increase the awareness of the District being associated with clean water and as a public service promoting diversity, literacy, and education.*

*The sponsorship ended June 30, 2002.*

- C. The District agrees with the State Auditor's recommendation.*

*The Purchasing Department, under the direction of the Director of Finance, will evaluate and expand the District policy providing guidelines for the solicitation and award of all non-engineering professional services. Said policy will be expanded to outline acceptable contract lengths, timely RFP cycles, evaluation and contract development processes. Upon modification of the policy and the completion of training of all appropriate District personnel, the Finance Department will begin reviewing all non-engineering professional services contracts for compliance with the resulting policy and provide central filing for future reference. In addition, the Assistant Director of Finance will conduct, at minimum, two reviews a year of random samplings of non-engineering professional services contracts to monitor accuracy of procedures.*

*Targeted Completion: March 2003*

- D. The District agrees with the State Auditor's recommendation.*

*The Accounting Department, under the direction of the Director of Finance will develop District guidelines for the payment and documentation of invoices associated with all non-engineering professional services. Said policy will outline minimum documentation requirements, contract-to-actual pricing review procedures and payment approval processes. The day-to-day payment approval of professional services related invoices will remain with its respective Director, however, the Assistant Director of Finance will conduct, at minimum, two reviews a year of random samplings of invoices and payments to monitor accuracy of procedures.*

*Targeted Completion: March 2003*

E. *The District agrees with the State Auditor's recommendation.*

*All efforts will be made to ensure dollars spent are charged to the object codes most reflective of the expenditure's use. The Assistant Director of Finance will conduct, at minimum, two reviews a year of random samplings of object codes entries to monitor accuracy of procedures.*

*Targeted Completion: January 2003*

<b>5. Expenditures</b>
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We noted some disbursements which do not appear to be a prudent, reasonable, or a necessary use of district funds. In addition, the district needs to strengthen the controls over adding vendors to the computerized accounting system.

A. We noted disbursements which do not appear to be prudent, reasonable, or a necessary use of district funds. In addition, the supporting documentation for these disbursements did not always indicate the business purpose and/or identify those people attending. Examples of some of these disbursements which we viewed as questionable are as follows:

Disbursements to other entities:

Name	Fiscal Year		Purpose
	2001	2000	
Abundant Life Ministry	\$ 0	480	Not documented
Annie Malone Children & Family Service Center	2,000	550	Tables-dinners
Anti-Defamation League	400	0	Not documented
Beaumont Neighborhood	0	250	Not documented
Benefit luncheon/fashion show	400	0	Not documented
Black Family Week parade	0	50	Not documented
Downtown St. Louis Partnership	500	0	Not documented
Herbert Hoover Boys & Girls Club of St. Louis	1,500	1,500	Not documented
Inroads St. Louis, Inc.	600	0	Not documented
Kwanzaa	1,875	550	Not documented
Multimedia Services and Companies, Inc. (formerly St. Louis American Foundation)	3,500	1,705	Not documented
NAACP	950	500	Tables-dinners
Regional Commerce Growth Association	1,000	2,750	Not documented
Unity Ball	650	1,200	Tables-dinners
Urban League of Metro St. Louis	550	350	Not documented
Walks for Women (AMC Cancer Research Center)	1,000	0	Rally luncheon & registration
Yes, I Can banquet	900	450	Tables-dinners

The Missouri Constitution prohibits the use of public money or property to benefit any private individual, association, or corporations except as provided in the constitution. Without a written contract that clearly indicates the public services being provided by these organizations, these uses could be considered to be in violation of the constitution. In addition, some of these expenditures were to organizations and/or charities associated with some trustees. There is an appearance of a conflict of interest for Trustees when district funds are paid to organizations and/or charities they are affiliated with.

Disbursements for employees and vendors:

- ▶ In January 2002, the district spent over \$12,000 for its Diverse Universe Award Celebration luncheon and for promotional and informational material. According to the Director of Diversity, the luncheon was an awards and recognition program to suppliers, contractors, and consultants for outstanding service in support of the district's diversity program.
- ▶ In November and December 1999, the district spent almost \$4,500 for three networking breakfast meetings, one for construction vendors, one for goods/services vendors, and one for professional service vendors.
- ▶ An annual Years of Service Awards banquet is held each year for employees who have been with the district for a significant amount of years. The district spent approximately \$19,800, \$26,800, and \$20,000 in January 2000, 2001, 2002 respectively.

The majority of these funds were for the employee gifts, such as watches, clocks, jewelry, golf clubs, DVD players, and digital cameras. These gifts may represent extra compensation or bonuses to public officials or employees, which would be a violation of Article III, Section 39(3), of the Missouri Constitution.

- ▶ The district spent over \$46,000 and \$24,000 in fiscal years 2001 and 2000, respectively, on its employee incentive program, called Excellence in Action. Employees receive points (each point is worth \$5) for activities involving customer satisfaction, teamwork, and community relations and involvement. The dollar value of the points is transferred to a debit card, and the debit card can be used at the employee's discretion.

These expenditures do not appear necessary or essential to the operation of the district. The district has a fiduciary duty to the taxpayers to ensure district funds are expended in a manner that provides the greatest benefit to the district. It is unclear what, if any, benefit these expenditures provided.

- B. The district had routinely provided an open bar at its annual Years of Service banquet (part A.) which is not appropriate. For banquets held in January 2002,



2001, and 2000, the district spent in total approximately \$2,500 in liquor purchases. The purchase of alcoholic beverages by a political subdivision is not appropriate.

- C. The district uses a computerized accounting system to process bills paid by the district. To receive payment, vendors must be entered in the system with a vendor number. Personnel in three departments have the computer capability to add vendors to the system. This capability could allow unauthorized payments to be processed. Greater controls should be established to ensure only valid vendors are entered on the payment system. Ways to enhance controls would be to reduce the number of employees with the computer capability to add vendor records, and initiate a supervisory review of new vendor codes.

**WE RECOMMEND** the Board of Trustees:

- A. Ensure disbursements are necessary and prudent uses of public funds, provide a benefit to the district and do not violate state law or the state constitution.
- B. Discontinue the practice of providing an open bar at district sponsored events.
- C. Evaluate the controls over vendor records and consider reducing the number of people with access to these computer records. New vendor codes should be periodically reviewed by someone in a supervisory position.

**AUDITEE'S RESPONSE**

- A. *The District agrees with the State Auditor's recommendation.*

*The District will review all disbursements to entities for necessity, prudent use of funds, District benefit, and lawfulness.*

*The District will continue to review the prudence, reasonableness and necessity of its disadvantaged business outreach efforts along with investigating alternative funding sources. The District's current initiatives comply with and support the consistent Supreme Court rulings and disparity study recommendations regarding race and gender neutral measures in an effective program to provide equal access and opportunity to all businesses. The community outreach sponsorship, activity, and promotional expenses highlighted in this audit are comparable to those of other public agencies including the State of Missouri's Office of Equal Opportunity and Departments of Economic Development, Natural Resources, Transportation and the Missouri Lottery.*

*The General Counsel department has reviewed Article III, Section 39(3), of the Missouri Constitution, and has rendered a legal opinion that the Service Award program and the Excellence in Action program are not in violation.*

*The Service Award program was designed more than 20 years ago to recognize District employees for continued service with the District and the value that is added through their dedication. The longevity of these employees has allowed the District to benefit from their commitment to serve the organization for an extended period of time. Their commitment to serve the District, and the ratepayers has substantially reduced the cost that would have been incurred to continue training new employees. This expenditure far outweighs the cost of continued turnover.*

*Employees are recognized at an annual banquet at 20, 30, 35, and 40 years of service. The average cost of the gifts, per employee, is within the guidelines established by the Internal Revenue Service. In years past, the gifts that were part of the Service Awards Program were traditional gift. At the request of the employees, non-traditional gifts were added to the program. The District honored the request of the employees.*

*The Excellence in Action Program was developed to solicit the assistance of District employees to identify and reward employees for exceptional actions. This is not a program to reward employees for doing their jobs, but performing at a level that goes beyond. Employees are charged with improving customer satisfaction, teamwork, community relations, and identify cost saving opportunities for the District.*

*All District employees with the exception of senior management are able to participate in this program and make a difference.*

*Employees are rewarded with points that are worth \$5.00 per point for their recognizable involvement. Since the inception of this program, employees have reduced expenses with their cost saving recommendations. Listed below are just some of the savings that have been recognized as part of this program:*

- *Saved the District and Ratepayers approximately \$2 million. A Construction Inspector allowed the District to use his experience in tunneling, geotechnology and contract administration on a major project. The project was not outsourced because of this employee's willingness to go beyond the duties defined in his job description. He saw an opportunity to help the District save valuable funds, and acted upon it. His expertise also helped the contractors building the tunnel, to adhere to the original price specifications and avoid cost overruns.*
- *Realized \$156,000 cost savings to the District and Ratepayers. An employee at the Lemay Treatment Plant performed a systems network upgrade on the computer system that originally was scheduled to be outsourced. In addition, he trained his co-workers on the new software.*
- *Savings for the District and Ratepayers in the range of \$5,000 to \$7,000 annually. An employee identified a site to deposit unusable construction materials at no cost to the District. Prior to this time, the District had to pay for this service.*

- *The District and Ratepayers saved \$20,000. A District employee identified a design flaw in an engineering plan that was developed by another governmental agency and modified the plan. By identifying this flaw, the District did not perform additional unnecessary work on this project.*
- *The District and Ratepayers received \$12 million. An Engineering Manager worked with the State of Missouri on the Revolving Fund Program to secure funding for the District to fund various construction projects to help the community.*

*These are just a few examples of the cost savings opportunities identified by District employees. The recognized savings considerably outweigh the cost of the Excellence in Action Program.*

*B. The District agrees with the State Auditor's recommendation.*

*There will be no open bars at any District funded functions.*

*Completed: August 2002*

*C. The District agrees with the State Auditor's recommendation.*

*Vendor code access is currently controlled by the Accounting Department and grouped by department, rather than individual. The District's current financial system allows for the assigning of vendor code access by individual, however this approach would increase the complexity of maintaining the system's associated security tables. Management will examine the benefits of the recommended shift from individual access against the increased maintenance requirements and determine the best course of action. The necessary system adjustments will be made if the benefits are found to outweigh the increased maintenance.*

*Targeted Completion: December 2002*

*The Accounting Department, under the direction of the Director of Finance will develop a procedure by which vendor codes are reviewed at least annually, by all appropriate departments.*

*Targeted Completion: June 2003*

<b>6.</b>	<b>Construction Projects</b>
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The district needs to improve its construction reports to provide more accountability to the public. The district does not compare and report cost estimates (budgeted amounts) to actual award (contract) cost of a project, nor does the district compare the award cost to the completed project cost.

Upon our request, the district accumulated and provided us a list of all construction projects awarded and construction projects completed, for the two years ended June 30, 2001.

Our review of these construction projects revealed the following:

- A. The district does not routinely track and compare construction projects and their estimated cost to awarded cost. In addition, the reasons for the variances are not documented.

For the two years ended June 30, 2001, the district awarded 64 construction projects with an estimated construction cost of \$64.9 million; however, the awarded costs totaled \$55.8 million. The total construction contracts awarded were about 14% less than the estimated amount.

As noted above, the district's construction estimates are generally significantly higher than the awarded amounts. Cost estimates should be as accurate as possible because the district uses these estimates in conjunction with estimated revenues to plan its annual Capital Improvement and Replacement Program, and to budget future projects in its annual budget.

The district should update its cost estimates as new information, such as change in scope, and new material costs become available. In addition, the district should routinely track and compare construction projects and their estimated amount to awarded cost, and document the reasons for the variances. This will help the district to better estimate its project costs.

- B. The district does not prepare reports which track and compare the awarded construction costs with the actual costs incurred. It is not possible to contain or justify cost overruns unless the reasons they occurred are analyzed and documented.

For the two years ended June 30, 2001, 92 construction projects, totaling approximately \$93 million, were completed. Once a contract is awarded it may take several years to complete. The award date for these completed projects ranged from 1995 to 2000. The contract award costs for these projects totaled approximately \$89 million. This resulted in cost overruns of approximately \$4 million, or 4.7 percent.

The district should track and periodically compare construction contract cost with the actual cost incurred to effectively manage its cost overruns.

**WE RECOMMEND** the Board of Trustees require the preparation of construction reports to better monitor its construction projects and to provide greater accountability to the public. Project cost estimates should be updated as new information becomes available. The district should track and periodically compare cost estimates to contract

amounts and compare the contract amounts with the actual costs incurred. In addition, the reasons for the variances should be documented.

### **AUDITEE'S RESPONSE**

- A. *The District agrees with the State Auditor's recommendation.*

*The District reviews its unit prices annually. The actual construction values are compared to estimated prices in this review. The construction market has varied because of influence by economic conditions of the industry and the impacts of workload of the contracting community as opposed to labor and material cost escalation or reductions. Because of many unknowns in underground construction, accurate estimating is difficult.*

*Although it would be desirable to be within a 5 to 10 percent variance, the District believes that the 14 percent above estimate is not significant but reasonable when considering underground construction with unknown conditions and is more acceptable than falling short of anticipated project costs.*

*However, the District is developing a report that monitors this information on a regular basis in addition to its policy of annual review of unit prices.*

*Targeted Completion: January 2003*

- B. *The District agrees with the State Auditor's recommendation.*

*All additional project costs or "cost overruns" are documented, signed by the Assistant Director of Program Management and the Director of Engineering, recorded in the project cost and tracking system and included in the project file. This practice has been in place since the 1980's. Each change order states the specifics of the change and the cost of the change. The 4.7 percent over original bid price is within the 5 to 10 percent contingency allowance provided for each project in the Capital Improvement Program. The District's ability to control project risks such as changed conditions and scope adjustments have allowed us to stay within the Capital Program budget and provide for the completion of all planned projects. The District does not have a report that lists all projects with change orders (cost variances from the original bid.) The District concurs that these reports should be generated and reviewed on a regular basis, and will implement these reports immediately.*

*Targeted Completion: January 2003*

<b>7. Expense Reimbursements</b>
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The supporting documentation for the district's business expense reports (particularly for business meals and credit card charges) is not always adequate. Airline tickets are not

always attached to expense reports, and a business reason for flight upgrades is not documented. In addition, some lodging appeared excessive.

- A. The supporting documentation for business meals for non-district personnel recorded on expense reports does not always include the specific business purpose and/or guest(s). The district's business expense policy requires the business purpose of meals purchased for non-district personnel to be documented. It appears that business meals are generally purchased by senior level management, mainly the executive director.

Accountability over business expenses is reduced without a business purpose, and the purpose is needed to evaluate necessity and reasonableness.

- B. Documentation supporting credit card charges is not adequate. The district provides the executive director and assistant executive director credit cards to be used in paying business expenses. Charges to these cards included expenses for hotels, meals, and car rentals.

Generally, only the credit card statement and the signed charge slip are submitted for reimbursement. The actual charge receipt needs to be submitted to support charges in order to evaluate whether the expenses are for official district business.

- C. Generally, a copy of the airline ticket was not attached to the expense report to support air travel. In addition, we noted some upgrade charges, totaling \$225, charged to the district's credit card by the Executive Director. Upgrade charges are additional fees added to airline tickets to convert coach fare to first class. The business reason, if any, for these upgrades was not documented.

The district's business expense policy requires coach fares and requires ticket stubs to be attached to the expense report. In addition, a clear business reason should be documented for flight upgrades.

- D. Some lodging appeared excessive. We noted three instances when lodging was over the federal per diem and/or Runzheimer lodging rate. The charges for one night's lodging in Washington D.C., Indianapolis, and Colorado Springs were between \$190 and \$330, which exceeded the federal per diem and/or Runzheimer rate by \$100 to \$200. In addition, there was no documentation to indicate if these charges were government/conference rates or why it was necessary to pay these rates.

The district's business expense policy states that employees should utilize reasonable priced accommodations and ask for government or conference rates, when applicable. The district should adopt the federal per diem rate and/or another reasonable lodging rate and require a business reason and a written explanation of why it is necessary for lodging costs to exceed these rates.

Similar conditions to A. & B. were also noted in our prior report.

**WE RECOMMEND** the Board of Trustees:

- A. Require all employees to submit proper documentation for meal expenses for non-employees, including the name(s) of the guest(s) and the business purpose for meals.
- B. Require credit card charges be supported by the actual charge receipts.
- C. Require a copy of the flight ticket stub be attached to the expense report. In addition, the business reason and necessity for flight upgrades should be documented.
- D. Adopt the federal per diem rate and/or another reasonable lodging rate and require a business reason and written explanation as to the reason it was necessary to incur lodging which exceed these rates.

**AUDITEE'S RESPONSE**

*The District agrees with all four of the State Auditor's recommendations.*

*The District's current policy governing expense reimbursement and business expense reporting requires all employees to submit the documentation noted in Recommendation A. The policy will be revised to incorporate the remaining three recommendations as listed above. No reimbursement of expenses will be processed without proper documentation and approval.*

*Targeted Completion: December 2002*

**8.**

**District Policies and Procedures**

The district has not established a limit on the amount of unused accrued sick leave paid employees. A districtwide policy on record retention and document destruction has not been established. Also, a current list of related employees and employees with secondary employment is not maintained and monitored by the Office of Human Resources.

- A. The district has not established a limit on the amount of unused accrued sick leave paid when an employee leaves the district.

As part of the district's Compensation Plan, the district pays a vested employee who retires, dies, or leaves the district a portion of his/her unused accrued sick leave at the rate of 1.25 percent for each year of employment. It appears this policy is intended to reduce the amount of sick leave used by district employees.

In fiscal years 2000 and 2001, the district paid approximately \$332,000 and \$402,000, respectively, for unused sick leave. Seven employees received payments over \$30,000, and one additional employee received over \$119,000 (approximately 123 percent of his annual salary) for his unused sick leave.

To help control costs, the district should consider establishing a limit on the amount of unused accrued sick leave paid when an employee leaves the district.

- B. The district has not established a formal written districtwide policy on record retention and document destruction.

Although district personnel indicated that they follow the state law regarding record retention, the district has no written guidelines for district departments and it appears that some departments have established their own policy regarding record retention.

The district normally destroyed its documents through shredding and the shredding was usually performed in-house. But, starting in February 2001, the district retained a vendor to perform its paper shredding. From February 2001 to December 2001, the district paid \$1,746 for these services.

The district's informal shredding policy only describes the type of material allowed, such as office paper, computer paper, envelopes, computer disk, etc., not the type of records which should be shredded such as confidential payroll records, and personnel records. Also, a log for confidential records is not maintained to document the records being shredded, the date of destruction, or authorization/approval.

The district should establish a formal written policy for record retention and destruction. The district should follow the Secretary of State's retention policy and federal guidelines, as applicable. In addition, a destruction log for confidential records should be maintained to document the records being destroyed, the date of destruction, and authorization/approval.

- C. A current list of related employees and employees with secondary employment is not maintained and monitored by the Office of Human Resources.

The district's employee manual provides that employees are not to supervise or deal with the payroll of an immediate family member or a person with whom the employee resides. Also, an individual may not be employed by the personnel department if an immediate family member works for the district. Although the employment application requires the applicant to disclose relatives already employed at the district, the Office of Human Resources does not review for conflicts when an employee moves to a different job and/or location. Rather, this is left to the individual department. In addition, employees who engage in



secondary employment only request and receive prior approval from their respective department.

To aid the monitoring of related employees, the district could have each employee complete an annual questionnaire to identify relatives working for the district. Also, to ensure secondary employment activity is properly monitored, the Office of Human Resources should be notified when secondary employment is approved by the various departments.

**WE RECOMMEND** the Board of Trustees:

- A. Consider establishing a limit on the amount of unused accrued sick leave paid when a vested employee leaves the district.
- B. Establish a formal written policy for record retention and destruction. In addition, a destruction log for confidential records should be maintained to document the records being destroyed, the date of destruction, and authorization/approval.
- C. Establish policies and procedures to identify and monitor instances where employees are related to each other and ensure those individuals are not working in conflicting employment capacities. Each employee should complete an annual questionnaire identifying relatives working for the district. In addition, the Office of Human Resources should be notified when secondary employment is approved by the various departments. This information could also be requested using the same annual questionnaire as the questionnaire regarding relatives working at the district.

**AUDITEE'S RESPONSE**

- A. *The District will consider the State Auditor's recommendation.*

*Employees vested in the pension plan are paid a percentage of their sick leave at retirement and termination. This benefit saves the District and ratepayers money because of the incentive not to abuse the sick leave benefit. On an annual basis, the District compares their benefits offered to their employees with those offered by St. Louis City, St. Louis County and the State of Missouri. Based on the comparison, the one benefit all of the governmental agencies have in common is no maximum sick leave accrual.*

*At retirement, the District, St. Louis City, and St. Louis County pay a percentage of sick leave balances. There is no limit on the amount paid by any of these entities.*

*The individual employee referenced in the discussion, was an extreme case, where the employee had 40 years of service with almost no sick leave usage throughout his career. In the same fiscal year, 35 other employees with an average of approximately 20 years of service averaged a sick leave payout of approximately \$6,000. Since the payout is 1 ¼*

*percent per year of service, the District is paying on average 25 percent of the value of the sick leave if it had been utilized by the employee.*

*The sick leave payout is part of the District's Memorandums of Understanding with the unions representing District employees. The current Memorandums do not expire until June 30, 2004.*

*B. The District partially agrees with the State Auditor's recommendation.*

*The District recognizes the need for a formal records retention and document destruction policy. Accordingly, a task force has been formed to assess this issue. This task force has determined that it appears that the District does keep records for at least the time frame required by law. We anticipate that this task force will recommend a comprehensive records retention and destruction policy that is consistent with all applicable laws and regulations.*

*Targeted Completion: February 2003*

*Management disagrees, however, with the need to maintain a formal destruction log. During the audit, the District was advised to contact the State's Office of Administration and consider utilizing its procedures for the destruction of documents. The advised contact was made and material was received regarding recommended records destruction procedures. Review of these procedure revealed the District is currently handling the destruction of its documents in the same manner as the State's Office of Administration. Discussions with representatives from the State Office of Administration also indicated they do not maintain a destruction log.*

*Targeted Completion: Current & Ongoing*

*C. The District agrees with the State Auditor's recommendation.*

*The District is in compliance with Civil Service Rules and Regulations, 8.3 "Conflicting Employment" and 8.5 "Relatives." To strengthen procedures, the Office of Human Resources will annually require all employees to complete a questionnaire identifying relatives working at the District and any secondary employment.*

*Targeted Completion: January 2003*

<b>9. Vehicle Fleet</b>
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The district compensated employees \$76,250 for turning in district vehicles the employees were using primarily for personal commuting purposes which does not appear to be a necessary or appropriate use of district funds. In addition, vehicle usage logs are not maintained for many vehicles.

- A. It does not appear necessary and/or appropriate that the district compensate employees for turning in district vehicles used solely for commuting purposes. The district paid a total of \$76,250 to thirty-one employees who turned in district vehicles used for commuting prior to July 2002.

The district provided district-owned vehicles to selected employees for commuting purposes. These vehicles were to be used exclusively for driving between home and work. As part of a cost savings program, the district decided to eliminate the practice of providing commuting vehicles to most district employees. To help offset the loss of this benefit to employees, the district offered the employees three options:

- a payment of \$2,500, if the vehicle was turned in by July 2001,
- a payment of \$1,250, if the vehicle was turned in by January 2002,
- no payment if the vehicle was driven until July 2002.

Thirty employees received \$2,500, one employee received \$1,250, and twelve employees did not receive a payment.

It is not clear why the district believed it was necessary to compensate employees for the loss of their commuting vehicle. Normally, employees use personal vehicles to commute to and from work and are reimbursed for business use of a personal vehicle. In addition, these individuals could use the district's pool vehicles for travel on district business.

- B. Vehicle usage logs are not maintained for many vehicles. The district maintains a fleet of cars, trucks, and vans, with over 50 used as pool vehicles and over 90 assigned to employees. These vehicles do not include specialized vehicles such as dump trucks and step vans.

We reviewed the policies and procedures regarding vehicles at the Sulphur, Grand Glaize and Minert yards, and determined that no vehicle usage logs for pool vehicles and for vehicles assigned to specific individuals were maintained at Grand Glaize or Minert. Although the Sulphur yard maintained vehicle usage logs for pooled vehicles, these logs were not always properly completed, including the odometer readings, destination, and purpose. In addition, vehicle usage logs were not maintained for vehicles assigned to specific individuals.

Vehicle usage logs documenting the date, destination, purpose of the trip, and mileage should be maintained for all vehicles and periodically reviewed to ensure vehicles are properly used for business purposes. The district should establish standard and consistent documentation for recording vehicle usage throughout the district.

Condition B. was noted in our prior report.

**WE RECOMMEND** the Board of Trustees:

- A. Document its analysis and calculation to support its justification and the benefit to the district for payments to employees due to revisions of district policies.
- B. Require standard usage logs be completed and maintained for all district vehicles. The logs should include beginning and ending odometer readings, purpose of the trip, person making the trip, destination and date of travel. The ending mileage reported should be reconciled on a periodic basis to the vehicle odometer readings.

**AUDITEE'S RESPONSE**

- A. *The District accepts the State Auditor's recommendation.*

*As a result of the previous state audit, District vehicles assigned to directors were almost entirely eliminated. District practice was to consider the use of a vehicle for commuting as part of the employee's compensation. This benefit was included when employees were hired into or promoted to certain management positions. When the Directors cars were eliminated, compensation was included to cover a portion of the expense the employee incurred.*

*When the District decided to stop the practice of using District vehicles for commuting for 31 additional employees, who are on 24-hour call, it was felt that a similar approach was appropriate. In all cases the employees had been told that the vehicle came with the position they accepted when hired or promoted. The one-time payments employees received were small compared to the long-term loss of the commuting benefit. The long terms savings to the district includes the cumulative commuting costs for 31 employees and reduction of vehicles through consolidation.*

*Targeted Completion: N/A*

- B. *The District partially agrees with the State Auditor's recommendation.*

*The District continues to require vehicle usage logs on pool vehicles that are checked out by employees. Additional emphasis will be placed on assuring that these vehicles usage logs are completed and periodically reviewed. Mileage records will continue to be logged for each district vehicle when they receive periodic maintenance. Management will review the need for certain vehicles to be retained or replaced based on their usage from mileage records. The District is currently opting to eliminate several vehicles that do not have sufficient annual mileage to justify their cost. Presently the District has 44 cars, 61 pickups and 51 service vans in the fleet. All service vans are assigned to field personnel in the same manner as the dump trucks, step vans, sewer cleaning trucks, etc.*

*Usage logs for vehicles assigned to specific individuals, maintenance yards, pump stations or plants are not an efficient way of determining the proper use of District assets.*

*These vehicles are assigned to individuals at various sites for transporting employees, equipment and materials related to District business. The mileage on these vehicles is accumulated during the workday traveling between various worksites. Vehicle logs that detail the use of these vehicles create considerable paperwork with questionable value. If an employee were to use an assigned vehicle in an inappropriate manner it is unlikely that it would be recorded in a vehicle log.*

*Improvements in the data from the gas pumping system, mileage records on each vehicle coupled with the reduction of vehicles to the lowest practical level are considered sufficient measures with the greatest value in managing the District's fleet.*

*Targeted Completion: Ongoing*

<b>10. Meetings and Ordinances</b>
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Formal written minutes were not prepared for closed meetings. The minutes, ordinances, and resolutions are not being signed on a timely basis. In addition, the district needs to codify its ordinances and resolutions related to the policies and procedures of the district.

- A. Formal written minutes were not prepared for closed meetings during fiscal year 2001 and 2000. However, the board's decisions and votes were recorded in open session minutes. Currently, minutes are prepared for closed meetings.

Although minutes for closed meetings are not specifically required by law, minutes constitute the record of proceedings of the Board of Trustees. Formal written minutes for closed meetings result in a better record of district transactions, proceedings, and decisions. In addition, such minutes provide evidence that any discussion or business conducted in closed meetings pertain to matters authorized by the Sunshine Law, Chapter 610, RSMo.

- B. The board minutes, ordinances and resolutions maintained by the Secretary-Treasurer are not being signed by the Secretary-Treasurer and/or Chairman of the Board of Trustees on a timely basis. Although the Chairman of the Board of Trustees signs ordinances and resolutions, the Chairman does not sign the minutes. In addition, the district's Charter provides that the Secretary-Treasurer maintain a record of the board meetings, ordinances, resolutions, etc. and that these records be authenticated by his signature.

The Secretary-Treasurer has not signed the minutes since August 1999 and ordinances and resolutions since December 1999. Ordinances and resolutions have not been signed by the Chairman since March 2000.

The minutes, ordinances, and resolutions should be signed by the Secretary-Treasurer as preparer as provided by the Charter and by the Chairman of the Board of Trustees to provide an independent attestation the minutes, ordinances, resolutions are a correct record of the matters discussed and actions taken during the board meetings.

- C. The district needs to codify its ordinances and resolutions related to the policies and procedures of the district. Individual ordinances and resolutions date back to when the district was originally established, and include issues unrelated to the policies and procedures of the district, such as approval of construction contracts, and acknowledgement of retirements. As a result, it is difficult to determine which ordinances and resolutions are currently in effect regarding district policies and procedures.

Since the ordinances/resolutions represent legislation passed by the Board of Trustees to govern the district, its employees, and its customers, it is important that the district's ordinances and resolutions be maintained in a well-organized and up-to-date manner.

**WE RECOMMEND** the Board of Trustees:

- A. Ensure minutes are prepared for all closed meetings.
- B. Require the Secretary-Treasurer and Chairman of the Board of Trustees to sign board minutes, ordinances, and resolutions to attest to their accuracy and completeness, in a timely manner.
- C. Consider the codification of the district's ordinances and resolutions.

**AUDITEE'S RESPONSE**

- A. *The District agrees with the State Auditor's recommendation.*

*The Missouri Sunshine Law does not specifically require that detailed minutes of closed sessions be maintained. However, the Attorney General's Office recommends that minutes of closed sessions be maintained for business reasons and to demonstrate compliance with the Sunshine Law. The District acknowledges the need for these minutes and has already taken steps to assure that they are maintained in the future.*

*Targeted Completion: Current & Ongoing*

- B. *The District agrees with the State Auditor's recommendation.*

*The District's governing charter requires the authentication of all ordinances, resolutions, regulations, rules and orders. Due to timing and staff constraints these*

*documents were authenticated on an as needed basis to satisfy specific legal needs. Every effort will be made to assure that these records are signed on a timelier basis.*

*Targeted Completion: December 2002*

- C. *The District agrees with the State Auditor's recommendation.*

*While it is the District's position that the District's ordinances and resolutions are maintained in a professional and proper manner, in both hard copy in our legal library and on the computer which is well organized and user friendly, we will investigate the use of more efficient computer search engines to assist in the researching process.*

*Target Completion: January 2003*

<b>11. Fixed Asset Records and Procedures</b>
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The district is not conducting a physical inventory of its fixed assets on a timely basis. In addition, the individual performing the physical inventory is also responsible for recording and accounting for the fixed assets. The district's financial statements, as of June 30, 2001, show an investment in general plant and equipment of over \$48 million.

As of March 2001, a physical count for 9 of 15 (60 percent) locations had not been performed for over two years. During our review of fixed assets, we noted that some items, including a digital camera, VCR, and laptop computer, were not numbered, tagged, or otherwise identified as district property. In addition, some items were tagged, including a VHS recorder and VCR; however, the items were not recorded on the property records. Performing an annual inventory would help ensure discrepancies are identified and investigated on a timely basis.

An annual inventory is necessary to ensure all district assets can be accounted for properly. The results of the physical inventory should be compared to the property records and any discrepancies investigated. Property control tags should be affixed to all fixed asset items to help improve accountability and to reduce the loss or theft of assets. In addition, proper internal control requires physical inventories be conducted by persons who do not have record-keeping or custodial duties.

Similar conditions were noted in our prior report.

**WE RECOMMEND** the Board of Trustees ensure an annual physical inventory is conducted of all fixed assets and the results of the inventory be reconciled to the detailed property records. Property control tags should be affixed to all fixed asset items. In addition, the physical inventory should be conducted by persons independent of those having record-keeping or custodial duties.

## **AUDITEE'S RESPONSE**

*The District agrees with the State Auditor's recommendation.*

*Steps have already been taken to improve the fixed assets inventory process. Bar coding software was purchased in May 2002, which will streamline the inventory process, provide a system for scheduling inventories, and generate discrepancy reports. Full implementation of the software is expected by end of calendar year 2002.*

*Targeted Completion: December 2002*

*Currently, the District has one individual assigned the task of tracking general plant and equipment fixed assets. In order to allow for proper segregation of duties and complete annual inventories, additional staff will be needed. The 2002-03 budget does not currently include this addition in staff, but will consider it for the 2003-04 fiscal year.*

<b>12. Inventory Records and Procedures</b>
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Some employees are allowed to use district property for personal use. The district's inventory records are not accurate, periodic physical inventories are not conducted on a regular basis, and the inventory control function is not adequately segregated.

The district maintains a variety of inventory at over ten locations, including the treatment plants, pump stations, yards, and the Sulphur garage/shop. The district manages its inventory through a computerized plant information management system, in which items are automatically added to the inventory as purchases are made and usage is recorded as items are requested by district personnel. The district's inventory contains over 7,000 commodity codes for items such as automotive parts, tools, lubricants, pipes, electric motors, tires, etc.

Our review of the district's inventory records and procedures revealed the following weaknesses:

- A. The district routinely allows employees to use district property (i.e. compressors, chain saws, electric jack hammers) for personal use. A check out list for the equipment is maintained and includes the employee name, type of equipment, date and time checked out and date and time returned. However, the list was not always completed for the date and time returned. It does not appear appropriate for employees to use district property for personal use.
- B. The district's inventory records are not accurate and the value of the inventory cannot be readily determined. The cost of numerous items is not recorded in the inventory records, and some items show a negative number as on-hand. Also, district personnel indicated that sometimes employees use and/or return items



without informing the inventory control personnel. In addition, district personnel indicated there may be many obsolete items in inventory.

Accurate inventory records are necessary to ensure overall inventory balances are properly valued. Additionally, accurate inventory records are an essential tool for ensuring inventory levels are appropriate, economic order points are accurately applied, and storage and handling costs are minimized. We noted the district had identified some problem with the inventory records and was reviewing procedures to improve the records.

- C. The district does not conduct periodic physical inventories on a regular basis to identify the difference between the physical count and inventory records. Each location has established its own system. Some locations conduct physical counts on a sporadic basis, or when verifying reorder quantities, or as errors are discovered.

During a comparison of inventory records to items on hand, we noted 25 of 46 items (54 percent) where the count on hand did not agree to the amount recorded on the inventory records. Inaccurate inventory records may be the result of not recording all additions to and uses of inventory or possibly, unauthorized use of district inventory.

Periodic inventories on a regular basis and investigation of discrepancies in inventory counts is necessary to safeguard assets against loss, theft, or misuse and to ensure transactions are being properly recorded.

- D. The inventory control function is not adequately segregated. The inventory control personnel at each location generally perform all functions associated with the district's inventory at that location.

Proper segregation of duties would help to ensure that all transactions are accounted for properly and assets are properly safeguarded. At a minimum, a person(s) independent of the inventory control functions should perform the periodic physical inventory counts and supervisory review of any reconciliations and/or adjustments should be performed.

**WE RECOMMEND** the Board of Trustees:

- A. Ensure district property is used only for district business.

B,C,

- &D. Ensure inventory records are accurately maintained. To help accomplish this, the district should conduct periodic physical inventories on a regular basis and

investigate discrepancies in inventory counts. In addition, inventory duties should be segregated, there should be a supervisory review of reconciliations and/or adjustments, and someone independent of the inventory function should perform annual inventory counts.

### **AUDITEE'S RESPONSE**

A. *The District agrees with the State Auditor's recommendation.*

*For years the District has allowed its employees to check out certain equipment for personal use. Limitations were in place including the type of equipment, employees experience with the equipment, the time it could be offsite, etc. This practice is similar to allowances many private sector companies make for their employees. A policy is being developed that eliminates the practice of equipment and tool checkout.*

*Targeted Completion: January 2003*

B,C

&D. *The District agrees with the State Auditor's recommendation.*

*The District has always used an accounting approach that expenses inventory to the various departments as it is purchased. This practice eliminated the need to maintain an inventory for auditing purposes. The Taking Action to Stay Competitive project developed 35 specific recommendations regarding the District's inventory. For over a year a project has been underway to consolidate the various storage areas of the District into three warehousing hubs.*

*Upon completion, inventory items will be expensed when it is removed from the hub location. The value of the inventory will be identified as a district asset in future financial audits. The goals of the materials management project along with key deliverables are shown below.*

1. *Consolidate the number of storage locations within the organization.*
  - *Identify locations of hubs*
  - *Electronically consolidate parts*
  - *Evaluate hub/stores facilities*
  - *Physically consolidate parts*
  - *Determine feasibility and project plan to utilize single storage location for distribution*
2. *Form a work group to manage the supply needs throughout the organization.*
  - *Determine staffing requirements for hubs and satellites*
  - *Review/change positions and organizational structure*
  - *Re-assign/organize existing personnel to compliment staffing plan*
  - *Establish consistent Maximo user signature profiles for staff*
  - *Initiate staff development and training program*

3. *Reduce the total value of assets maintained on site.*
  - *Determine MSD's carrying costs*
  - *Determine MSD's replenishment costs*
  - *Determine MSD's overhead rates for materials management functions*
  - *Make units of measure (order & issue) consistent between hubs/sites*
  - *Review Price Agreements and identify opportunities for vendor stored inventory, automated releases against a blank order, economic order quantities, bulk buying/leveraging*
  - *Cost Accounting/General Ledger accounts—asset values and shrinkage control*
  - *Develop budgeting strategy to better forecast needs and determine necessary cash flow to support*
  - *Identify opportunities to get rid of obsolete (dead) stock and "break even"*
  - *Institute consistent purchase practices throughout the company*
  - *Automate reorder of the routine supply needs*
4. *Develop organization-wide standards and specifications for supplies.*
  - *MSD's organization—maintain MSD's information in a coordinated approach with Risk Management and Information Systems*
  - *Drawings and prints*
  - *Asset catalog*
  - *Develop organization-wide specifications and standards for materials*
  - *Coordinate these efforts with the Purchasing Group—equip Purchasing Group with access to this information to assist the purchasing consistency*
5. *Improve the accuracy of the Inventory Control Program.*
  - *Review item information and purge duplication in system*
  - *Integration with other District systems (AMS, Hanson, etc.)*
  - *Edit inventory item information*
  - *Review security measures for hubs/stores*
  - *Establish audit function for warehousing*
  - *Evaluate storage locations for ease of use*
  - *Investigate packaging options that assist accuracy objectives*
  - *Establish accuracy/tolerance expectations and align business practices to support these efforts*
  - *PDA usage and other technology*
  - *Institute receipt schedule with vendor shipments*
  - *Develop internal distribution/logistics strategy*

6. *Establish business practices for Materials Management.*
  - *Procedure and practice manual(s)*
  - *Implement procedures*

*All of the audit points will be covered by the completion of the project. The District's Internal Auditor, Finance and Operations Departments are partnering on this project to assure that the result is a materials management system that meets the organizations needs and has the proper financial controls.*

*Targeted Completion: July 2003*

This report is intended for the information of the management of the Metropolitan St. Louis Sewer District and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

## FOLLOW-UP ON PRIOR AUDIT FINDINGS

METROPOLITAN ST. LOUIS SEWER DISTRICT  
FOLLOW-UP ON STATE AUDITOR'S PRIOR RECOMMENDATIONS

This section reports follow-up action taken by the Metropolitan St. Louis Sewer District on recommendations made in the Management Advisory Report (MAR) on our report issued for the year ended June 30, 1986.

The prior recommendations which have not been implemented, but are considered significant, have been repeated in the current MAR. Although the remaining unimplemented recommendations have not been repeated, the board of trustees should consider implementing these recommendations.

1. Districtwide Capital Charges

Starting in fiscal year 1986, the district collected a capital charge which was defined by ordinance as that portion of the total charge which was included for debt retirement, construction, or reconstruction of the sewerage system, and any other lawful purpose of the district, and was considered part of the user charge.

- A. In fiscal year 1986, the district did not collect the capital charge applicable to the commercial and industrial surcharge customers within the Mississippi River Subdistrict in order to minimize the impact of implementing for the first time, a surcharge for biochemical oxygen demand (BOD).

However, the surcharge capital charge was implemented on a districtwide basis during fiscal year 1987 where it remained in effect until fiscal year 1998 when the courts ruled that the April 1985 \$8.6 million of voter approved revenue bonds were invalid due to a district charter restriction. The revenue bonds were redeemed from the escrowed proceeds and the districtwide capital charge was discontinued on July 1, 1987.

- B. Pending the outcome of litigation which questioned the district's authority to issue districtwide revenue bonds, the bond proceeds from the April 1985, \$8.6 million issue were held in escrow. At the same time, the district collected capital charges for debt service from its users in fiscal years 1986 and 1987. The district levied the capital charge anticipating that the bonds would be declared legal, released from escrow and used for their intended purpose.

Recommendation:

- A. This had been provided for information only. No recommendation was made.
- B. The district discontinue the collection of the districtwide capital charges and reserve the previously collected amounts until final settlement of outstanding

litigation concerning the possible refunding of amounts collected is reached. We also recommend the district adjust appropriate user charges for all appropriate classes if refunds are not required.

Status:

Implemented. The district established uniform user charges on a districtwide basis, effective December 1987, and previously collected capital charges were refunded to customers in March 1988.

2. Specific Subdistrict Capital Charges

In May 1977, the voters in St. Louis County, who resided outside the boundaries of the district, voted to be annexed to the district. In the following years, the district acquired the investor and publicly owned sewage systems in the area and merged them into an overall regional system of sewage collection and treatment.

- A. From fiscal year 1978 through 1985, it was the policy of the district to maintain the same user charge rates that were established by the investor and publicly owned systems prior to their acquisition by the district. This practice was modified by ordinance, (The Districtwide Revenue Bond Ordinance) in March 1985. The ordinance provided that all revenues, including excess revenues over and above the cost of operation and maintenance, be deposited into a districtwide revenue fund. Several subdistricts (Forest Ridge, Riverside, South County, Terri-Robyn, Twin Oaks, Missouri Bottoms, Spanish Lake watershed, and Valley sewage) paid excess revenues into the fund.

However, the practice of maintaining a higher user charge was discontinued in July 1986 when the charges for all subdistricts were set to equal the districtwide cost of operation, maintenance, and debt service.

- B. In addition to the subdistricts listed above, the district levied a higher user charge in other subdistricts (Fee Fee, Fenton, Martigney, and St. Louis County) for various reasons during fiscal year 1987 and 1988. In July 1987, the Court of Appeals ruled that the districtwide bonds and districtwide revenue bond ordinances were invalid.

As a result, all excess revenues collected over and above the cost of operation, maintenance, and debt service remained in each of the subdistricts to be used to fund improvements within each of the respective subdistricts.

- C. Prior to March 1988, the district charged residential customers in various subdistricts (Fenton, Martigney, and St. Louis County Sewer Company) a higher charge if the customer was serviced by a lift station.

Recommendation:

- A. This had been provided for information only. No recommendation was made.

The district:

- B. Adjust fiscal year 1988 user rates as necessary to prevent the recognition of excess capital revenues in the Fee Fee, Fenton, Martigney, and St. Louis County service areas.
- C. Discontinue charging a higher rate for customers serviced by lift stations in the Fenton, Martigney, and St. Louis County service areas.

Status:

Implemented. The district adopted a uniform districtwide user charge rate.

3. Storm Water Charges

Storm water charges for commercial-industrial customers for fiscal years 1986 and 1987 were developed using estimates of land area and imperviousness. However, the district charged these customers only the minimum storm water charge because the district's billing system did not have the information necessary to bill commercial-industrial customers on a land area basis. As a result, storm water revenue shortfalls occurred which were covered by rounding up the commercial-industrial volume charges. However, customers in the annexed area, who did not receive storm water service should not be subsidizing the costs for those customers who did receive storm water service.

The district indicated that funds were allocated in the 1988 budget to obtain information necessary to bill on the weighted land area basis, and for the implementation of such a billing system.

Recommendation:

The district charge all storm water customers on a flat-rate basis sufficient to recover storm water costs until such time as the weighted land area billing system has been established.

Status:

Implemented. Effective May 1988, the district adopted an ordinance to charge 24 cents per month for only customers who the district operated and maintained storm water drainage facilities. This ordinance was amended in February 1989 to include all customers.



4. Construction Improvement Program and Financial Condition of the District

In July 1987, the district entered into a consent decree with the state of Missouri. The consent decree obligated the district to undertake a program of modification for certain sewer and drainage facilities within the district to achieve and maintain compliance with the certain federal and state laws and the district's discharge permits. In addition, the district identified other capital improvement projects that needed to be completed between 1987 and 1994.

The district had originally planned to finance construction through the use of federal grants and local funds, with the local funds to be generated through the issuance of districtwide revenue bonds. However, districtwide revenue bonds were eventually declared illegal. Thus, the district needed to implement one or more alternate financing plans.

Recommendation:

The district evaluate the advantages and disadvantages of the available options under current circumstances and determine which option or combination of options would best meet its current and future financial needs. Once a financial plan has been chosen, we recommend the district act quickly in implementing this plan so that the construction schedules as set forth in the consent decree can be met.

Status:

Implemented. The district has satisfied its obligations related to the July 1987 consent decree. However, the district has not been released from the decree due to problems with the Baumgartner Lagoon. According to district personnel, the district has an oral agreement with the Department of Natural Resources to be released from the July 1987 consent decree and to enter into a new agreement for the Baumgartner Lagoon.

5. Operating Losses

The district did not use depreciation expense when setting sewer service rates. Rather, budgeted replacements of various equipment was used as replacement costs in 1986.

Recommendation:

The district consider using depreciation expense in addition to replacement costs in calculating sewer service charges.

Status:

Implemented. The consultant who is currently updating user rates indicated that depreciation is considered in the replacement costs used in the user rate calculation.

6. Interfund Transfers

- A. In fiscal year 1986, the district failed to record and report an \$80,000 transfer to the General Fund from various subdistrict funds.
- B. The district recorded a loan of approximately \$2.4 million authorized by an ordinance in April 1986 as an operating transfer.

Recommendation:

The district:

- A. Record this transfer in the applicable funds as indicated.
- B. Record this transfer as a loan, and follow the ordinances as adopted.

Status:

Implemented. Operating transfers for fiscal year 2000 and 2001 were properly recorded, and there were no loans authorized between funds.

7. Storm Water Responsibilities

When the district annexed additional areas in St. Louis County in 1977, it only assumed responsibility for sanitary controls in the annexed area. However, the charter as adopted in 1954 which required the district to take over the existing sewer facilities specifically included storm water systems. In addition, the Water Quality Act of 1987 appeared to require the management and control of discharges from storm sewers by October 1992. Also, studies of storm water problems concluded that the district would eventually have to assume storm water responsibility.

Since the increased regulations and compliance requirements of the Water Quality Act would cause a financial burden, the district needed to consider various financing options so that appropriate action could be taken in time to assure compliance with the act.

Recommendation:

The district take responsibility for storm water control in the annexed area. We further recommend the district evaluate available financing options and implement a sound financial plan whereby compliance regarding storm water control under the Water Quality Act of 1987 can be obtained on a timely basis.

Status:

Partially implemented. The district accepted responsibility for storm water control in the annexed area in April 1989. Although the district collects 24 cents per month from

all customers, this relatively small amount of funds has not allowed the district to finish any material storm water projects in the annexed area. According to district personnel, the district plans to ask voters, in the near future (after solving the more critical waste water issues), to approve a districtwide bond issue for storm water and sewer projects and to approve an impervious charge for storm water in order to address storm water problems on a districtwide basis.

8. Mississippi River Subdistrict Tax Levy

The district did not levy an operation and maintenance tax in 1980 for the Mississippi River Subdistrict. During 1980, the voters of the state of Missouri adopted Article X, Section 22(a) of the Missouri Constitution (Hancock Amendment). It appeared that the district might need voter approval to reimpose an operation and maintenance tax levy. In 1987, the district authorized a 6 cent tax levy without voter approval.

Recommendation:

The Board of Trustees review with legal counsel the question of reimposing the Mississippi River subdistrict's operation and maintenance levy, considering the present court decisions and the requirements of the Hancock Amendment.

Status:

Implemented. The district does not currently levy an ad valorem tax in the Mississippi River subdistrict.

9. Charter Revisions

Several provisions of the district's charter, adopted in 1954, appeared outdated.

- A. The district was unable to issue revenue bonds on a districtwide basis. In addition, the charter provided that the construction, reconstruction, or improvements be financed by individual subdistricts. Thus, the district's accounting system was designed to identify revenue and expenditures to specific subdistrict. However, the district's annual financial statements were issued under an enterprise accounting concept.
- B. The charter gave the district the power to levy taxes provided that the rate did not exceed ten cents on the hundred dollars assessed valuation. The charter provision conflicted with the Environmental Protection Agency regulation that forbid the use of ad valorem taxes to cover the costs of operation and maintenance of the sanitary sewer system. Operation and maintenance included general administration.

Recommendation:

The district propose the following charter revisions:

- A. Revise charter Section 3.020 subdivision (15) and (24) so that districtwide revenue bonds can be used for financing and construction. We also recommend the district account for the operations as a single enterprise.
- B. Specify in Section 3.020(20) that taxes cannot be levied for operation and maintenance of the sanitary sewer system.

Status:

- A. Partially implemented. The district revised its charter in November 2000 to allow districtwide revenue bonds for financing and construction. However, the district has not changed its accounting system.
- B. Not implemented. Although not repeated in the current MAR, the Board of Trustees should consider implementing this recommendation.

10. Charter Compliance

- A. The Circuit Court judges determined the qualifications and appointed the Board of Trustees. However, the courts did not provide the district evidence that board members met the charter provisions, including the provision that not more than two trustees from the city or county be affiliated with the same political party.
- B. The members of the Board of Trustees and the Chairman of the Board of Trustees received a monthly flat-fee expense reimbursement of \$50 and \$75 per month, respectively. No documentation of actual expenses incurred was maintained by the trustees.
- C. Nominees to the Civil Service Commission, appointed by the Board of Trustees, were not asked to confirm their qualifications. Commission member qualifications were the same qualifications as the trustees.
- D. District management did not periodically monitor collateral security pledged by depositaries for propriety and adequacy.
- E. The district budgeted a negative fund balance in a subdistrict for fiscal year 1986. Section 7.090 of the charter provided for a balanced budget in all funds.

Recommendation:

- A. The Presiding Circuit Court Judge follow the district charter when qualifying candidates.

The district comply with provisions of the charter by:

- B. Requiring the members of the Board of Trustees to maintain records of actual reimbursable expense.
- C. Complying with all requirements for membership on the Civil Service Commission prior to appointment by the Board of Trustees.
- D. Monitoring collateral security pledged by depositaries for compliance with Section 30.270, RSMo.
- E. Discontinuing the practice of budgeting negative fund balances.

Status:

- A. Implemented. The Mayor of the City of St. Louis and the St. Louis County Executive each appoint three trustees.

B,D,  
&E. Implemented

- C. Not implemented. Although not repeated in the current MAR, the Board of Trustees should consider implementing this recommendation.

11. Civil Service Rules and Regulations Compliance

- A. One director had not met the district's residency requirement regarding residence in the State of Missouri.
- B. One employee ran for an elective office while employed full-time with the district. Personnel regulations prohibited employees from being a candidate for political office.

Recommendation:

The district:

- A. Require all employees to comply with the Missouri residency requirement.
- B. Take appropriate measures to inform all employees of the Civil Service Rules and Regulations' restrictions on political activity and enforce the policy.

Status:

- A. The district no longer has a Missouri residency requirement.

B. Implemented.

12. Personnel Practices

- A. The district implemented a policy in 1986 which allowed funds to be withheld from employees' paychecks to satisfy delinquent sewer charges. State law suggested that the district had no authority to withhold a portion of their employee's earning to satisfy overdue sewer charges. However, the district could have sought formal judgments against delinquent employees through the judicial system.
- B. The district did not have an adequate system of tracking and recording compensatory time.
- C. The district did not have a policy requiring key financial personnel to take a specified vacation each year.
- D. Personnel files did not always contain performance evaluations for all employees. The district procedures required salary adjustments to be determined by reviewing employee performance evaluations and other relevant information.

Recommendation:

The district:

- A. Discontinue the practice of withholding funds from employees paychecks to satisfy delinquent sewer charges until proper legal procedures have been pursued.
- B. Develop an adequate system for recording compensatory time earned by managerial and unclassified employees.
- C. Require all key financial personnel to take vacations each year.
- D. Implement procedures to ensure that employee performance evaluations are included in personnel files prior to salary adjustment.

Status:

- A. Implemented. The district no longer withholds funds from employees' paychecks for delinquent sewer charges.
- B. Implemented.
- C. Partially implemented. Although a leave policy was established for financial personnel, leave was not always taken as required by the policy.

- D. Not implemented. Three of fifteen (20 percent) of personnel files reviewed did not include the annual performance evaluations for 2001. Although not repeated in the current MAR, the Board of Trustees should consider implementing this recommendation. In addition, the Board's evaluation of the Executive Director for the year ended August 2000 was not filed in his personnel file.

13. Policies and Procedures Manual

The district was developing a districtwide policies and procedures manual. We noted the following areas where guidance or procedures were not present or not adequate in the manual:

- A. The manual did not have a provision requiring compliance with the district's policies regarding conflict of interest. In addition, contractors doing business with the district on occasion gave small gifts to employees.
- B. Several members of management were reimbursed expenses related to various civic organizations. It was not appropriate for governmental entities to pay personal costs related to civic organizations.
- C. Many manual checks were regularly written to contractors and management employees for expense checks. It appeared that standard uniform procedures were being circumvented to benefit individuals or contractors rather than the district as a whole.
- D. There were several questionable uses of the district's petty cash funds, as well as apparent problems with security of the funds. Purchases were made for alcoholic beverages, cigarettes, and cigars. Lunch for the county health inspector was routinely paid. Due to the lack of physical security, thefts from various funds were reported. Postage stamps were purchased for the convenience of employees. In addition, some expenses did not have adequate documentation.

Recommendation:

The district continue to review and formalize policies and operating procedures and to include provisions as noted below:

- A. Within the "Conflict-of-Interest" policy:
  - 1) Require all officers and employees to periodically disclose all interest and official relationships they or their immediate family have with the various vendors and contractors with which the district does business.
  - 2) Require all members of the Board of Trustees and senior level management to comply with Sections 105.452 and 105.454, RSMo 1986.

- 3) Prohibit the acceptance of gifts from contractors and to provide guidance to employees when conducting formal or informal business with contractors.

In addition, we recommend the district enforce established disciplinary actions for violation of policies.

- B. Establish a policy which forbids the reimbursement of expenses related to involvement in civic organizations.
- C. Establish formal policy and procedures on the issuance of manual checks. This policy should allow the issuance of manual checks only when beneficial to the district.
- D. Revise the current petty cash policy, so that petty cash funds are restricted solely for the purchase of items relating to the operation of the district. Purchase of alcoholic beverages and tobacco products should be specifically prohibited.
  - 1) Prohibit the use of petty cash funds to provide lunches to the county health inspectors.
  - 2) Require improved physical security over petty cash funds when not in immediate use.
  - 3) Require adequate documentation for all petty cash expenditures.

Status:

- A. Partially implemented. By ordinances, the Board of Trustees adopted the conflict-of-interest provisions and the filing of financial interest statements with the Missouri Ethics Commission, as provided by Chapter 105, RSMo. However, the district has not directly addressed the issue of accepting gifts from contractors.
- B. Partially implemented. The district adopted a policy related to memberships in professional organizations. However, the district has continued to support certain civic organizations. See MAR No. 5.
- C. Implemented. The district adopted a policy related to the issuance of manual checks. However, manual checks are still issued to certain entities. See MAR No. 3.
- D. Implemented.



14. Deferred Compensation Plan

- A. The district did not have contracts with the investment companies providing various plan options.
- B. The district's deferred compensation plan committee, as the plan administrator, was not adequately performing its duties. The participant files did not contain salary information. Basic investment information, such as balances and rates of return, for one plan option was not sent to the district. In addition, information for other plan options was not monitored for accuracy or propriety.

Recommendation:

The district:

- A. Obtain a signed agreement with all companies handling deferred compensation accounts to include the companies with common stock and certificate of deposit options.
- B.1. Require the committee to monitor the amount of total contributions from each employee at least annually to ensure compliance with the Internal Revenue Code and Ordinance No. 6265.
- 2. Require all companies investing participant's funds to send basic information to the district and the committee as administrator, monitor performance of these companies, and to take a more active role in the administration of this plan.

Status:

Implemented.

15. Pension Plan

- A. The district had no written general investment policy establishing investment objectives, such as asset mix, expected rates of return, risk exposure, and degree of liquidity.
- B. The district did not enter into written contracts with all of the money managers who provided investment advisory services to the pension fund.
- C. There was no documentation that investment performance of the pension plan money managers were adequately reviewed.
- D. The district did not maintain adequate records of pension fund investment activity.

- E. The district had invested in a mutual fund operated by one of the money managers.

Recommendation:

The district:

- A. Develop a formal investment policy that is binding upon all fund managers.
- B. Establish written contracts with all financial consultants.
- C. Require written periodic performance evaluations to be prepared for all fund managers.
- D.1. Maintain detailed records of pension fund investment transactions and monitor those transactions.
- 2. Enforce investment activity reporting requirements for fund managers and retain all reports received.
- E. Evaluate alternative mutual fund investments.

Status:

Implemented.

16. Connection Fees

- A. Connection fee rates differed between sewer service areas, with three areas having no connection fees at all.
- B. Ordinances could not be located which adopted the connection fees assessed in several service areas.
- C. The existing connection fee ordinances were in conflict with the revenue bond ordinance, adopted in March 1985.

Recommendation:

The district:

- A. Develop a basis for establishing districtwide connection fees and adjust current and/or implement new rates accordingly.
- B. Adopt all connection fees by ordinance.

- C. Revise ordinances as necessary to resolve all conflicts and establish reserves as necessary in the Revenue or General Fund to ensure connection fees are spent as intended.

Status:

Implemented. The connection fee ordinance is applied on a districtwide basis. The connection fees are deposited in the Improvement Fund, and are used for capital improvements and replacements of the wastewater system.

17. Accounts Receivable

- A. No written procedures existed for the processing of overdue accounts receivable, or for accounts with a credit (negative) balance. As a result, 1) collection cases sent to the Legal Section were not adequately tracked, and 2) documentation of action taken (normally documented in the comments section for the applicable account) was not required by written procedures nor were written guidelines available for credit balances.
- B.1. The district did not have a formal written and signed agreement with its collection agency.
  - 2. The district did not bid out its collection agency agreement.
  - 3. The district did not perform a cost-benefit analysis of hiring additional employees as collectors versus using the collection agency for all the delinquent accounts.

Recommendation:

The district:

- A. Prepare a collection procedures manual. This manual should include procedures to:
  - 1. Track cases that are sent to the Legal Department and follow up on cases where appropriate.
  - 2. Provide guidelines related to the documentation and payment of refunds for overpayments or credit balances.
- B.1. Obtain formal written agreement with the collection agency.
  - 2. Establish a formal bidding policy regarding collection services.

3. Evaluate the current collection effort and costs and perform a cost-benefit analysis of hiring additional collections personnel versus using the collection agency.

Status:

A. Not implemented. See MAR No. 1.

B.1

&2. Partially implemented. Although the district has written agreements for its debt collection services, these services have not been bid for over five years. See MAR No. 4.

3. Not implemented. Although not repeated in the current MAR, the Board of Trustees should consider implementing this recommendation.

18. Bank Accounts

A. The district did not have formal written contracts (depository agreement) with its depository banks.

B. One bank did not have adequate collateral pledged to secure deposits. In addition, the district did not monitor pledged collateral security.

C. The district did not bid out its banking services.

D. The district had excessive bank accounts, fifteen accounts with five different banks. However, during the audit, nine of the fifteen accounts were closed.

Recommendation:

The district:

A&

C.1. Establish a formal bidding policy for banking services.

2. Request proposals for banking services.

3. Develop a formal contract(s), signed by both the district and the institution, upon selection of a banking institution or institutions.

B. Monitor to ensure the banks pledge sufficient collateral securities at all times.

D. Close all unnecessary bank accounts.

Status:

A&C. Implemented. Although the district had not fully implemented the recommendations during the two years ended June 30, 2001, we noted the district was in the process of completing the implementation of these recommendations.

B. Implemented.

D. Partially implemented. Although the district has numerous bank accounts, the district appeared to have adequate reasons for these accounts.

19. Cash Receipt Procedures

A.1. Mail receipts were not listed on a mail log.

2. All checks were not immediately restrictively endorsed when received.

3. The duties in the handling of mail receipts in the Secretary-Treasurer's office were not properly segregated.

B.1. Applications for connection permits were not numbered.

2. Permit refunds were sometimes made in cash when the application fee was not deposited.

3. The receipts for connection permits and inspections were not deposited timely.

C. The district did not have a centralized location where all over the counter monies are received.

Recommendation:

The district:

A.1. Prepare mail listings of receipts and independently reconcile the mail listings with reported receipts on a periodic basis.

2. Endorse all checks immediately upon receipt.

3. Establish a proper segregation of duties within the Secretary-Treasurer's office.

B. Revise current procedures with regard to the connection, construction, and machine tap permits in the Engineering Department to require:

1. Application permits be prenumbered.

2. Refunds be made by check and through standard procedures.
  3. Deposit of all receipts on a daily basis as required by the district charter.
- C. Establish the function of a centralized cashier within the office of the Secretary-Treasurer to collect and process all receipts of the district.

Status:

- A.1. Not implemented. A mail log is not prepared; however, all checks are forwarded to the Cashier's Office for processing.
  2. Partially implemented. Checks are not restrictively endorsed when received by the engineering department
  3. Implemented.
- B.1. Not implemented. The computerized receipt for the connection fess and permits are not prenumbered.
- 2
- &3. Implemented.
- C. Implemented. The district established a Cashier's office for the processing of all receipts received by the district.

20. Emergency Contracts

- A. The selection process for emergency contracts with construction and engineering firms and the specific considerations used in awarding these contracts were not formally (written) documented.
- B. Although required by district policy, the agreements with the engineering firms were not written contracts.

Recommendation:

The district:

- A. Amend the emergency procedures policy to include a provision to require adequate documentation of the considerations used in the selection of engineering and construction firms.
- B. Comply with the emergency procedure policy that requires a signed contract for emergency engineering work.

Status:

Partially implemented. There were no emergency contracts during the two years ended June 30, 2001. However, an emergency contract was issued in January 2002. Although district policy requires that the selection process for the contractor be documented, the selection process was not documented in this case. However, a written agreement was prepared.

21. Engineering and Consultant Contracts

- A. The district did not have an organizationwide policy for the acquisition or monitoring of consulting services, except for the engineering department's procedures for the selection and monitoring of consultant contracts.
- B. The requests for proposals to engineering firms were not always made in writing.
- C. The selection procedure for awarding engineering contracts were not well documented.
- D. The engineering firms did not always present a certificate of insurance for professional liability.

Recommendation:

The district:

- A. Establish an organizationwide policy for the acquisition of consulting services to include an analysis of the need. Competitive bidding should be used when appropriate. We also recommend binding contracts with monitoring and evaluating of consultants.
- B. Require that all requests for proposals for district projects be in writing and maintained in the contract files.
- C. Formalize and document the procedures used in selecting engineering firms.
- D. Enforce the standard engineering contract provision relating to insurance by requiring the presentation or proof of insurance.

Status:

- A. Partially implemented. See MAR No. 4.
- B,C  
&D. Implemented.

22. Expense Reimbursements

- A. There was a high degree of noncompliance by senior level management with the district's policy on claiming reimbursement for business expense.
- B. There was questionable reimbursements which appeared to be for the benefit of the employee/official instead of for the conduct of official business of the district.
- C. The monthly flat rate expense provided to four members of senior level management was not included on the applicable employees W-2 form as required by the Internal Revenue Service.

Recommendation:

The district:

- A. Require compliance by all employees with the proper documentation of and timely submission of expense claim forms as provided by the "Official Business Expense Reporting" policy.
- B. Reject expense claims containing personal or nonbusiness expenditures and require all claimed expenditures to be necessary for the official business of the district.
- C. Eliminate the flat rate allowance paid to these employees or establish a policy delineating the exact expenditures for which this allowance is to be used.

Status

A

&B. Partially implemented. See MAR No. 7.

C. Implemented. The district eliminated the flat rate allowance.

23. Purchasing Manual

- A. The release of a purchase order for purchases greater than \$100 was changed to \$250 without the approval of the Board of Trustees.
- B. The guidelines and procedures required by the purchasing manual and the applicable ordinance was not being followed. 1) The emergency purchasing policies were not being enforced. 2) Price checks were not being done by district personnel for blanket purchase orders. 3) Price quotes for various purchases were not documented. 4) Not all newspapers used to publish notices inviting bids met the legal definition of general circulation.



Recommendation:

The district:

- A. Amend the purchasing manual in formal written manner when necessary and obtain Board of Trustee authorization when required.
- B. Comply with established purchasing guidelines and procedures. Specifically, we recommend the district:
  - 1. Limit emergency purchases to those items which are required to return a piece of equipment or system to operational status, or to cases where the immediate procurement of supplies, equipment, or contractual service is essential to prevent delays in the work of any agency which may vitally affect the life, health, welfare, or convenience of citizens.
  - 2. Ensure that items purchased under a blanket purchase order are only paid for at the bid price.
  - 3. Obtain and maintain the required documentation of price quotes on applicable purchases.
  - 4. Publish notices inviting bids on purchases of \$10,000 or more in at least one newspaper of general circulation in the district. In order to meet this requirement and minority purchasing requirements, the district may want to simultaneously place notices in one newspaper of general circulation and in one newspaper directed at minority readership.

Status:

A,B2,

&4. Implemented.

- B.1. The purchasing department cannot readily identify emergency purchases. However, purchasing department personnel stated that there were no emergency purchases over \$25,000 during the two years ended June 30, 2001. None of the expenditures we reviewed were emergency purchases.
- 3. Not implemented. We noted that documentation of quotes and justification for sole source was not always documented and forwarded to the purchasing department in accordance with district policy. Although not repeated in the current MAR, the Board of Trustees should consider fully implementing this recommendation.

24. Property, Plant, and Equipment

- A. The district did not have a complete and accurate real property record. In addition, the land book (prepared from record searches) did not agree to the computerized listing of properties of land and land rights.
- B. The Division of Finance did not receive adequate information from the Legal Department in order to properly record real property acquisitions.
- C. The district did not conduct an annual inventory of fixed assets.
- D. The Division of Finance did not handle the record-keeping (accounting) function for real property lease arrangements, and the Office of Secretary-Treasurer was not responsible for collecting the lease payments.

Recommendation:

The district:

- A. Establish and maintain a complete and accurate real property record.
- B. Establish a reliable mechanism to inform the Division of Finance of all real property acquisitions and include appropriate costs information.
- C. Conduct an annual inventory of high-risk and high-cost items, and a regular inventory on a less frequent basis of other items.
- D. Transfer record-keeping responsibility and cash receipt function for real property lease arrangements to the accounting and the Secretary-Treasurer's office respectively.

Status:

A,B,  
&D. Implemented.

C. Partially implemented. See MAR No. 11.

25. Vehicle Fleet

- A. The district provided all directors (twenty) unmarked automobiles with regular state license plates and nineteen of the twenty directors with gasoline credit cards. Personal use of these vehicles was allowed.

1. The mileage logs maintained by the directors to account for the business and personal use were not standardized and generally did not contain adequate documentation for the destination and purpose of the trip.
2. The use of state license plates served no apparent valid business purpose.
3. It appeared that the district could save money if the directors were reimbursed for the business use of their personal car.
4. a. It appeared that fuel credit cards were provided as a convenience and were not a necessity.
  - b. Fuel purchases made by credit cards were more costly than fuel available at the district fuel pumps.
  - c. Fuel purchases made by credit card were not incorporated into the vehicle usage reports used to monitor fuel usage and maintenance requirements.
  - d. Although items such as antifreeze, oil, car wash and wax were available at the district maintenance garages, many of these items were purchased by credit card.
- B. It appeared that the vehicles assigned to full-time employees (other than directors) were not being fully utilized. In addition, many of these employees did not appear to have a reasonable need for a vehicle.
- C.1. Vehicle mileage logs, other than vehicles provided directors, were not maintained. In addition, the directors' mileage logs did not include the destination or purpose of the business travel.
2. Many erroneous odometer readings were entered into the district's fuel pump computerized system.

Recommendation:

The district:

- A. Discontinue the practice of providing a personal car and a gasoline credit card to directors and reimburse the directors at the same rate as other employees for the use of their personal cars when the use of a district car would not be appropriate. If the practice of providing vehicles continues the district should increase accountability over the use of these cars and credit cards by:
  1. Requiring each director to submit a standardized monthly log of automobile usage which includes the destination and purpose for each business trip recorded.

2. Providing automobiles with district logos and license plates, rather than unmarked automobiles with state license plates to directors.
3. Instituting gasoline credit card policies and procedures that:
  - a. Restrict usage to stations outside of the metropolitan St. Louis area.
  - b. Require fueling at the district fuel pumps when possible.
  - c. Require the incorporation of credit card purchases in the fuel monitoring and maintenance monitoring reports.
  - d. Restrict the purchases of vehicle accessory items to emergencies.
- B. Perform an in-house, vehicle-by-vehicle analysis of the current vehicle fleet and eliminate those vehicles not necessary to the cost-effective administration of the district.
- C. Institute vehicle policies and procedures that:
  1. Require a vehicle log for all automobiles and require the log to be completely filled out including odometer readings, destination, and purpose.
  2. Establish limits or reasonableness checks in the reporting system itself that would ensure accurate or near accurate recording of odometer readings when refueling.

Status:

- A. Implemented. The district discontinued the practice of providing a personal car and gasoline credit card to directors. Instead, directors are assigned commuting vehicles and/or use a pool vehicle. See MAR No. 9.
- B. Partially implemented. See MAR No. 9.
- C. Not implemented. See MAR No. 9.

26. Waste Discharge Controls

- A.1. Samples, taken to test the content of waste being dumped at the treatment plants, were taken by the driver of the truck hauling the waste, often without the supervision of a district employee. In addition, the district did not test all samples submitted.

2. Samples taken before discharge were not matched with samples discharged, and oral approval was given to discharge the waste.
- B. Waste discharge procedures varied at the three discharge sites.

Recommendation:

The district require:

- A.1.
- a. All waste samples taken during discharge be taken by the site operator or be directly observed by the site operator.
  - b. All samples taken be tested prior to allowing the discharge.
2. All waste samples submitted by the haulers be matched to those samples taken during discharge and for discharge approval to be in writing.
- B. Standard written procedures concerning waste discharge for all sites.

Status:

Implemented.

27. Internal Audit Function

The district had not established an internal audit function.

Recommendation:

The district establish an internal audit function that will report directly to the Board of Trustees.

Status:

Implemented.

HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

## METROPOLITAN ST. LOUIS SEWER DISTRICT HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Metropolitan St. Louis Sewer District was created in 1954 to provide a metropolitan-wide, integrated sewer system to serve the city of St. Louis and parts of the county of St. Louis. Prior to the creation of the district, various municipalities and private sewer companies provided sewer service that primarily included only collecting and transporting sewage from small geographic areas to nearby rivers and streams with little or no treatment. Most of the municipalities or private sewer companies serving the area did not have the jurisdictional authority or financial resources needed to eliminate health hazards from untreated sewage.

When the district began operations, it took over the publicly owned wastewater and stormwater drainage facilities within its jurisdiction and began the construction of an extensive system of collector and interceptor sewers and treatment facilities. In 1977, the district annexed a 270 square mile area of the lower Missouri River basin and Meramec River basin watersheds, thereby doubling its service area. The district purchased the Fee Fee Trunk Sewer Company and the Missouri Bottoms Sewer Company in 1978, and acquired other systems since that time.

The district's service area now includes a system of sanitary, stormwater and combined sewers totaling more than 8,700 miles of pipes and channels covering more than 524 miles, serving approximately 1.4 million customers.

The district is governed by a six-member Board of Trustees with equal representation from the city and the county. A three-member Civil Service Commission serves in an advisory position on problems concerning personnel administration. The Charter (Plan) which established the district was amended by voters in 2000. The amended Plan established an independent fifteen-member rate commission to review adjustments to the district's user charges before the Board of Trustees acts on them. Delegates on the rate commission represent various organizations. Another major change in the Plan gave the district the authority to issue revenue bonds on a districtwide basis.

The Board of Trustees enacts district ordinances, determines policies, and appoints the Executive Director, the Secretary-Treasurer, and the Internal Auditor. The Executive Director appoints all other district officials and employees.

The Board of Trustees and other principal officials at June 30, 2001, were:

<u>Board of Trustees</u>	<u>Term Expires</u>	<u>Actual Compensation for the Year Ended June 30, 2001</u>
Mary Gassmann Reichert, Chairman	March 2004 (1) \$	325
Carolyn D. Seward, Vice Chairman	March 2005	350
Thomas W. Purcell, Member	March 2004	250
John W. Siscel, Member	March 2002 (2)	325
Anthony J. Soukenik, Member	March 2005	0 (3)
Michael C. Williams, Member	March 2002 (4)	325
 <u>Other Principal Officials</u>		
Willie Horton, Executive Director		209,544 (5)
Karl Tyminski, Secretary-Treasurer		109,717
Terry Follmer, Internal Auditor		1,923 (6)
Randy Hayman, General Counsel		108,689 (7)
Bernardine Rivers, Director of Diversity		67,331
Charles Etwert, Assistant Executive Director		159,018
Vicki Edwards, Director of Human Resources		75,691
Terry Briggs, Director of Public Affairs		85,673
Don Moschenross, Director of Administration		118,097
Janice Zimmerman, Director of Finance		17,369 (8)
Larry Carpenter, Director of Information Systems		99,303
Bernie Rains, Director of Environmental Compliance		104,214
Not Filled, Director of Risk Management		0 (9)
Robert Butchko, Director of Engineering		123,176
Roger Wieting, Director of Operations		123,200

The amounts presented for the Board of Trustees represent compensation for attending meetings. These trustees receive compensation of \$25 for each day on which he/she attends a regular or special meeting. Trustees are paid in December each year for that years' compensation. In addition, trustees are reimbursed for their necessary and reasonable expenses incurred in the discharge of their duties.

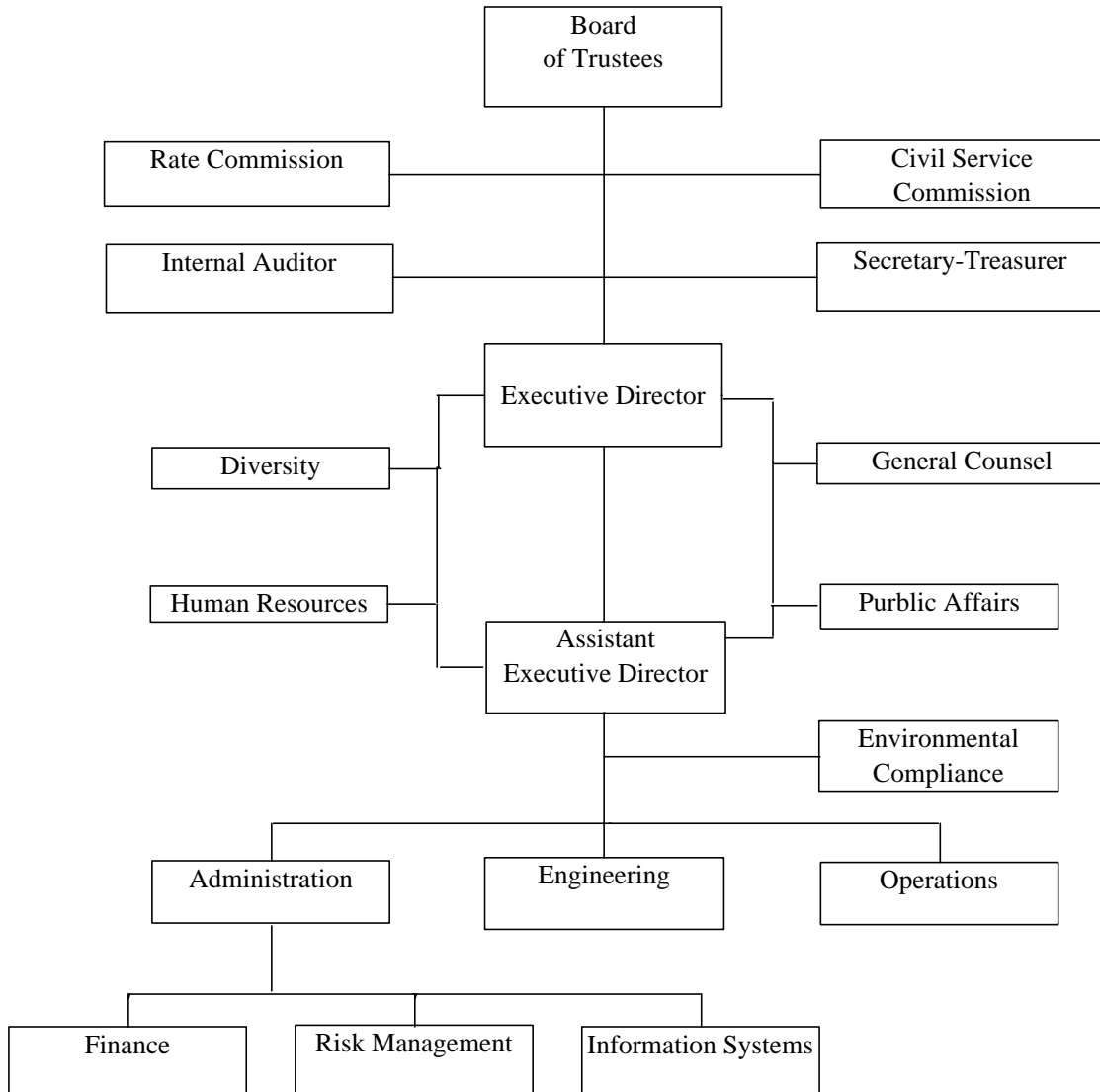
- (1) Ms. Reichert resigned from the Board effective July 31, 2002.
- (2) Mr. Siscel was reappointed to the Board until March 2006.
- (3) Mr. Soukenik directed his 2001 compensation totaling \$475 to charity.



- (4) Mr. Williams will continue to serve until a replacement is named.
- (5) The Executive Director's annual salary is \$183,750. This amount includes vacation buy-back. Mr. Horton's contract was not renewed by the Board. The contract terminated September 6, 2002.
- (6) The Internal Auditor was hired in June 2001. His annual salary is \$100,000.
- (7) The General Counsel was hired in August 2000. His annual salary is \$134,567.
- (8) The Director of Finance was hired in April 2001. Her annual salary is \$105,082.
- (9) Bruce Kozozenski was hired as the Director of Risk Management in August 2001. His annual salary is \$69,327.

An organization chart follows.

METROPOLITAN ST. LOUIS SEWER DISTRICT  
ORGANIZATION CHART



\* \* \* \* \*